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ECONOMIC SECURITY ACT

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

H. R. 4120

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ECONOMIC SECURITY ACT

MONDAY, FEBRUARY 4, 1935

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The Chairman. The committee will be in order.

We will continue this morning the hearings on H. R. 4120. At the conclusion of Dr. Townsend's main statement last week, he stated that the condition of his health was such that he did not feel able to undergo cross-examination on the part of the committee, and suggested that Mr. Francis Cuttle, of Riverside, Calif., would appear this morning to take his place in explanation of the bill H. R. 3977, or answer such questions as the members of the committee might desire to propound.

If Mr. Cuttle is present, will he please come forward?

(Mr. Cuttle did not come forward.)

The Chairman. Mr. Ford, acting State commissioner of social welfare of the State of New York, has asked the opportunity of making a brief statement. We shall be glad to hear Mr. Ford at this time.

STATEMENT OF CLARENCE E. FORD, ACTING STATE COMMISSIONER OF SOCIAL WELFARE, NEW YORK STATE

Mr. Ford. Mr. Chairman and members of the committee: I have come at the request of the Governor of New York to state his position and that of the department in respect to a very few matters touched on in this bill.

The department of social welfare, it is expected, will administer the sections with relation to dependent children and the sections relating to the so-called "old-age pensions."

First of all, in the matter of dependent children, in connection with section 204 (a) appearing at page 11 of the bill which I have, there is a provision that requires that the State shall make substantial contributions to the payment thereof. Governor Lehman desires me to say that the State of New York has been engaged in State aid for various projects to such an extent that a very large part of the State revenues are now being consumed for that purpose.

He has suggested in connection with his budget message that a committee be appointed to go over this whole situation with the idea of making certain changes. He hopes that it will not be made mandatory under this bill that the existing system of mothers' aid which has been in use in the State of New York for some 20 years be

changed. This is a local system. The State does not now make any contribution, and it is his hope that this mandatory section be taken out and there shall be merely a requirement that the State shall exercise supervision over mothers' aid.

The second matter is in reference to the requirement that aid to dependent children shall be available in every political subdivision of the State. In New York State, with some $13,000,000 available and spent for this purpose, there are still 10 counties which are not taking advantage of the law. To force those counties to do this may be difficult, and the use of force, in any event, is unsatisfactory. We suggest that it be made a requirement that the aid be available in the discretion of the localities.

I may say any further statement regarding that matter of contributions that I may make would be that the argument usually employed in respect to the State's setting standards, if it makes contributions, will not be effective after the Federal appropriation is made, for the reason that the Federal appropriation itself, administered by a State agency and under the direction of the Federal administrator will be sufficient to enable them to set the standards. So much for the statement in respect to dependent children.

Now, on the so-called "old-age pensions", we wish particularly to emphasize the need for recognition in the law of the responsibility of relatives for support. The law itself is now silent on that point and while it might be possible that the rules of the Federal administrator might provide for that, on the other hand, it is also possible that they might not. We urge that the law itself provide that relatives—sons, daughters, whatnot—be made responsible to the extent of their ability before old-age pensions be given from State or from Federal funds.

Another point is in reference to the provision here that this aid shall not be available to those who, at the time of receiving such financial assistance, are inmates of public or other charitable institutions. We believe, from our own experience in New York, covering, now, several years, and including more than 50,000 persons, there should be an exception to permit hospital care. Persons of that age go to hospitals rather frequently. It is a necessary part of the old-age care, and there should be that much of an exception in relation to that provision of the law.

In reference to the matter of residence, we feel that there should be some provision recognizing the necessity for having resided in the State and in the county. There is a provision now so far as State residence is concerned, but there is no provision for county residence. A provision recognizing the necessity of residence in the county for a given time, possibly a year, is suggested.

Another point is in reference to the provision that the person receiving income must have an income which, when joined with the income of the spouse, is not sufficient to provide reasonable support. We hope that may be clarified so that there will be no inducement for persons who are 70 years of age to take on young wives who may marry them for the express purpose of sharing in the old-age support which may come to them.

In the existing New York State statute the spouse is not eligible if under the prescribed age. We realize that in some cases that makes necessary two forms of support in one family, but, on the

whole, we feel it be a desirable provision and necessary to prevent something which may lead, in certain cases, to considerable abuse.

One thing more. The provision in the law in reference to the United States Government having a lien upon the estate of the aged recipient: As we study provisions of that law, it gives the Federal Government a prior lien and in some cases might result in the Federal Government taking over the whole estate and leaving nothing for the State or local governments. We believe that the word "proportionate" should go in there and that the Federal Government in its contribution should share with the States and the localities.

May I have permission, Mr. Chairman, to leave these memoranda with the clerk for the information of the committee?

The Chairman. You have that permission.

Mr. Ford. And I wish to say that, having made these statements which are by way of objections and suggestions, we wish to emphasize that we are in favor of the bill as a whole. New York State has now in force the provision for care under mothers' aid and old-age pensions, and, to some extent, child welfare.

Mr. Treadway. Mr. Ford, let me understand your position in the State of New York, please?

Mr. Ford. I am acting commissioner of the State department of social welfare. The commissioner, I may say, is in a hospital and is unable to be here.

Mr. Treadway. Your first suggestion led me to think that in view of the system you have in New York State dealing with mothers' aid—I think that was your first subject——

Mr. Ford. Yes, it was, sir.

Mr. Treadway. That you wanted an exception made so that New York State might act in a way differently from the other States; is that correct?

Mr. Ford. No; my point was this. I hoped that an exception would be made so that any State similarly situated may act.

Mr. Treadway. Do you think it is advisable to set up exceptions when you are setting out on a broad principle such as is involved in this bill?

Mr. Ford. I would make no exception. I would eliminate that provision. Then the State would have the choice that it has now.

Mr. Treadway. Either to go in or stay out?

Mr. Ford. It has that choice now, it is true. But it has the further choice at the present time to make it wholly a State fund, as some States do, a combined State fund, as your own State does, Mr. Treadway, or a wholly local fund, as New York does.

Mr. Treadway. Of course, the moment you get into these various exceptions, you run into all kinds of difficulties—you realize that. For instance, the other day a gentleman who made a very excellent witness told us about private corporations that have set up their own schemes. He thought that they ought not to be included here; and so on. In dealing with a Federal bill like this, do you not think that you must stick pretty close to your main line?

Mr. Ford. Quite true, and I would like to read what I am suggesting here in reference to a proposed provision of the law, "that the State or its political subdivisions shall make substantial contributions to the payment thereof and that the State shall make adequate provision for the administration thereof." That merely adds "the State or its political subdivisions", don't you see?

Mr. TREADWAY. I see your point, and it is well taken.

Now, from your experience in matters of this nature, how many other States perhaps would take the same ground that you are now taking, if they appeared here, where there are similar laws that you think would conflict?

Mr. FORD. By far the largest group of States do it through local provision. I have a table showing exactly which States do it by State funds, which States do it by the combined method, and which States do it wholly through the localities.

Mr. TREADWAY. If you would file that for the committee's information, I would appreciate it. You have permission, as you understand, to file for the record any matter pertaining to this subject that you have discussed. If you have such a table, carrying out your suggestion, it would be valuable for the committee if you would file it with us.

Then I understood you to say that the general principles included in the bill you approve?

Mr. FORD. Very much so.

Mr. TREADWAY. The State is in accord with the general idea?

Mr. FORD. Yes.

Mr. TREADWAY. Have you studied the financial aspects of this proposal, the cost to the Government and to the States, if the provisions in the bill are carried out?

Mr. FORD. Only so far as it relates to New York State. We have studied it rather carefully as it relates to our own State.

Mr. TREADWAY. What does it do to your finances?

Mr. FORD. The Federal bill is broader than our own State statutes at the present time.

Mr. TREADWAY. I imagine that would be the case with respect of nearly all States, would it not?

Mr. FORD. I think so, sir. The result, as nearly as we can estimate it, will be that the proposed Federal aid coming to New York State will just about compensate for the increased amount of aid to be given, so that the localities will pay substantially the same sum as now and the increase caused by taking on more cases will come from the Federal Government, under this bill.

Mr. TREADWAY. Then, if I understand your explanation, it will not lead to a very material increase of expense on the State of New York?

Mr. FORD. Oh, no.

Mr. TREADWAY. So that it is not in a financial way that you are offering these suggestions of changes, but in a practical way looking to better administration?

Mr. FORD. In the practical way of administration without disturbing an existing set-up which we have had for many years and which I believe is satisfactory, which does not involve State funds. It seems to us that in those States which have that set-up and have found it satisfactory there should be a provision under which the States may continue that set-up.

Mr. TREADWAY. Mr. Chairman, I would suggest that Mr. Ford, if it is agreeable to the chairman and the committee, as he has offered some very excellent and constructive suggestions, put those suggestions in the form of amendments to the bill, indicating where they would appear, and so on, so that we may have it definitely before us instead of having merely a statement of the witness' views.

Mr. FORD. I have them here, and have other copies, if you would like to have them. I anticipated such a request.

Mr. TREADWAY. Those may be filed with the reporter for the record.

Mr. FORD. With the exact wording which we think appropriate.

Mr. TREADWAY. Thank you, Mr. Ford.

The CHAIRMAN. Without objection, the matter referred to will be made a part of the record at this point.

(The statements referred to are as follows:)

SUGGESTED AMENDMENTS TO FEDERAL ECONOMIC SECURITY BILL

Governor Lehman points out difficulties and delays involved in attempting compel counties to make appropriations, adequate or otherwise, and suggests that section 204 (a) be amended so as to provide that State plan be applicable in all political subdivisions of the State but not to require that the aid in question be available in every such subdivision. A single city or county might cause Federal allotment to be withheld even though aid was well administered in all the rest of the State. Litigation in an attempt to compel such a city or county to make aid available would be long drawn out and until its successful termination no Federal allotment could be made, nor could such allotment then be made for the period of litigation. The following is suggested:

(*a*) Provides that not later than June 30, 1936, and thereafter, aid to dependent children shall be available, to persons in need of the same, *under law or laws applicable* in every political subdivision of the State, *that the State shall seek to enforce such law or laws uniformly in all its political subdivisions.*

The Governor further points out that present demands upon the State treasury are so heavy as to make additional taxations necessary, and that to make a State contribution equal to the probable Federal allotment of one-third of the cost of the aid in question would involve the addition of more than $6,000,000 to the State's annual expenditure. It is his opinion that the State should not be called upon to provide more than the cost of administration which is estimated at approximately $211,150, leaving the cost of aid and local administration to be divided between the Federal allotment amounting to one-third and local appropriations amounting to two-thirds of the total cost. It is therefore suggested that the final clause of section 204 (a) be amended to read: "and that the State or its political subdivisions shall make substantial contributions to the payment thereof, and that the State shall make adquate provision for the administration thereof."

SUGGESTIONS FOR CHANGES IN THE WAGNER ECONOMIC SECURITY BILL WITH RESPECT TO OLD-AGE ASSISTANCE

I. The definition of old-age assistance as given in section 3 provides that the benefits of the law be extended to persons "who, at the time of receiving such financial assistance, are not inmates of public or other charitable institutions." If the term "public or other charitable institutions" is intended to include correctional and custodial institutions not generally considered as charitable, it should be so stated. In the New York State law the inmates of such institutions, public or private, are excluded.

On the other hand, this section apparently excludes from the benefits of old-age assistance, patients receiving temporary medical care in hospitals, hospitals being by many considered as "charitable." It is extremely important that the aged be provided with necessary medical care, whether in their own homes or in hospitals. The New York law permits such care to be provided through old-age relief, unless they are chronic cases who must be provided for in institutions.

It is suggested that section 3 be amended to read as follows:

"SECTION 3. As used in this title, old-age assistance shall mean financial assistance assuring a reasonable subsistence compatible with decency and health to persons not less than 65 years of age, who, at the time of receiving such financial assistance, are not inmates of public or other charitable, *correctional, or custodial* institutions; *except in the case of temporary medical or surgical care in a hospital of a person who at the time of admission to the hospital is a recipient of old-age assistance.*"

II. In section 4 (e) it is proposed to furnish assistance to the aged "at least great enough to provide, when added to the income of the aged recipient, a reasonable subsistence compatible with decency and health." This statement makes no reference to the legal and moral duty of a son or other legally responsible relative to provide support for a needy aged person. The New York State law clearly makes ineligible for old-age relief an applicant whose legally responsible relatives are able to provide support. The release of such responsible relatives from their obligations not only is dangerous because of the social and moral principles involved, but would add greatly to the burden now assumed by the public. Moreover, it is probable that the wording of the Federal law would be interpreted as requiring full subsistence to be provided an aged person who is living with a son or daughter in the same manner as if he were living alone. In New York State a recipient of old-age relief living with a legally responsible relative who is unable to provide fully for his parent is allowed only such amount of the additional cost of his presence in the household (including food, clothing, and incidental needs) as the relative cannot reasonably provide, and the interpretation that may be made of the wording of the Wagner bill will substantially increase the allowance in many instances.

It is suggested that section 4 (e) be amended to read as follows:

"SEC. 4 (e). Furnishes assistance at least great enough [to provide], when added to the income of the aged recipient *and to the contributions in money, substance, or service from legally responsible relatives or others, to provide* a reasonable subsistence compatible with decency and health; and, whether or not it denies assistance to any person, at least does not deny assistance to any person who (this to be followed by subdivision 1)."

III. The provisions of section 4 (e) (2) require that persons be eligible for old-age assistance who have a residence within the State of "5 years or more within the 10 years immediately preceding application for assistance." The New York State law requires residence within the State of 10 years immediately preceding the date of application, and an actual residence within the county or city public welfare district for 1 year immediately preceding such application. The change to "5 years or more within the 10 years immediately preceding application" would increase considerably the numbers eligible and would tend to encourage removal into New York State of persons who moved away less than 5 years ago and now wish to return. It is suggested that this subdivision be changed to read as follows:

"(2) Has resided in the State for 5 years or more within the 10 years immediately preceding application for assistance, *and has resided in the county or city in which the application is made for at least 1 year immediately preceding such application;* and"

IV. Section 4 (e) (3) provides that if the person applying "Has an income which when joined with the income of such person's spouse, is inadequate to provide a reasonable subsistence compatible with decency and health" old-age assistance must be granted. This is subject to the possible interpretation that the allowance shall be sufficient to provide for the applicant and his spouse.

Unless the spouse is deliberately to be made eligible, it is suggested that the subdivision read as follows:

"(3) Has an income which when joined with the [income of] *reasonable contributions which may properly be required from* such person's spouse *or other legally responsible relatives* is inadequate to provide a reasonable subsistence compatible with decency and health; and"

If it is intended to make a spouse eligible for old-age relief, even though less than 65 years of age, the wording should express the restrictions as to age and as to the length of time they shall have been married before application for old-age relief has been made.

The making of a spouse less than 65 years of age eligible for relief is presumably not intended.

Section 4 (f) provides that the State shall take a lien "on the estate of an aged recipient", the lien to be enforced by the State and an accounting to be made therefor to the Federal Government. The wording of this paragraph seems to require that the Federal Government shall have a prior lien against the proceeds of such estate, as compared with the rights of the State and the locality in executing such lien. Furthermore, it does not distinguish as to the classes of property which may be a part of the estate of the recipient to be reserved; that is, as to whether only such real estate as constitutes the home of the recipient and is so used is exempt from lien enforcement.

It is suggested that subdivision (f) be amended to read as follows:

"(f) Provides that so much of the sum paid as assistance to any aged recipient as represents the share of the United States Government in such assistance shall be a lien on the estate of the aged recipient which, upon his death, *or upon his ceasing to use as his home any real property included in such estate,* shall be enforced by the State, and that *such share of* the net amount realized by the enforcement of such lien *as represents the proportional contribution by the Federal Government toward the old-age assistance paid to the recipient* shall be deemed to be part of the State's allotment from the United States Government for the year in which such lien was enforced: *Provided,* That no such lien shall be enforced against any real estate of the recipient while it is occupied by the recipient's surviving spouse, if the latter is not more than 15 years younger than the recipient, *was married to the recipient at least 5 years before application was made for old-age assistance,* and does not marry again."

Mr. Cooper. Mr. Ford, you indicated certain amendments which you thought should be made to the pending measure, seeking further to define the qualifications that people should have to meet in order to qualify for benefits under this system.

Mr. Ford. Under the old-age provisions.

Mr. Cooper. Under the old-age provisions of the pending bill.

Mr. Ford. Yes.

Mr. Cooper. You understand, of course, that the purpose here is to set out certain rather broad provisions that must be complied with, and all these other matters are to be left to State legislation. You understand that, do you not?

Mr. Ford. There is a provision that it shall be subject to the rules of the Federal administrator. That is the part that causes us some concern. We do not know what those rules of the Federal administrator may be, and there are certain things we would like in the law itself.

Mr. Cooper. Naturally, if we set out everything you might suggest in Federal legislation, that might not conform to the needs and desires of many other States of the Union, You appreciate that. do you not?

Mr. Ford. Yes.

Mr. Cooper. While at the same time you have the opportunity of including those very provisions in the act passed by the legislature of your State.

Mr. Ford. We are not so sure about that. If the Federal administrator should make rules otherwise, we feel that we could not pass such legislation. That is the very point we have in mind. We think that that matter of support by responsible relatives is so important that it should be in the statute itself and should not be left to the discretion of the Federal administrator. Suppose he should make a ruling that relatives were not to be considered in this matter of the assignment of old-age pensions, then our State statute would have to conform or we could not get any Federal money.

Mr. Cooper. I think you will find the purpose of this pending measure to be that certain rather broad requirements are set out, and then the intention is to leave it to the States, through their respective legislatures, to prescribe the conditions that have to be met by the people in the States in order to qualify for benefits.

Mr. Ford. That is very good, sir, and I wish I could be absolutely sure that the provisions given in this bill to the Federal administrator to make rules might not be used in some way to conflict with the established regulations in the State of New York and in other States.

There is a provision here that the requirements as to old-age assistance must be approved by the Federal administrator. That is in section 2. The provision is that those requirements must be approved before an allotment may be made. The State customs and requirements, and so forth, their rules and regulations, must be approved by the Federal administrator. If the Federal administrator should take the view that relatives should not be required to support their aged parents or what not, it would lead to all sorts of disastrous complications, in our opinion. People with plenty of money might find it possible to shove their parents onto the old-age-assistance set-up.

Mr. Cooper. Is it correct to assume that you believe in the principle we are trying to carry out in this legislation?

Mr. Ford. Very much so, sir.

Mr. Cooper. That is, that by this Federal act, we prescribe certain rather broad provisions, and then leave the other matters to the respective States for action through their legislatures?

Mr. Ford. As I read the bill, it is not left entirely to the States. I think it is left more to the Federal administrator than it is to the States. If it were left to the States, there certainly could be no objection.

Mr. Cooper. I think there will be no difficulty along that line, because that is the underlying principle that is guiding us in the consideration of this whole system that is sought to be set up.

Mr. Ford. It is a very good principle, and if we were assured that there would be no rules which would contravene the purpose we all have in mind it would be all right.

Mr. Bacharach. I was very much interested in the statement you made to Mr. Treadway, that it would not cost New York State very much more money. Will it cost them any less money?

Mr. Ford. I do not think so. Any estimate, of course, is only an estimate, a guess; but based on our present experience it will run a little more, but not enough so as to cause any particular difficulty for the localities which now put some 12 or 13 million dollars into this form of assistance in the State of New York.

Mr. Cullen. That was one of the questions I was going to ask, There is another thing in my mind, referring to a statement that you made. Did I misunderstand you in thinking that you said that the State legislature of New York would hesitate to pass laws to conform to the Federal law in the event this legislation were passed?

Mr. Ford. No. The Governor and the legislature have not committed themselves in any way, Mr. Cullen, on that point, but the Governor did ask me to urge that the statute be so worded that it would not be mandatory upon the State to make an appropriation. As to what the State action on this bill would be I am unable to state at all.

Mr. Cullen. You are representing the State, in the Department of Social Welfare of the State of New York?

Mr. Ford. Yes, sir.

Mr. Cullen. You are making the statement that this legislation is along the ideas of the Governor and the legislature, and you are suggesting that it be made permissive for the States.

Mr. Ford. Permissive only as to a State appropriation, Mr. Cullen; not permissive as to other matters.

Mr. CULLEN. I wanted to clear that up for the record, because I did not want the impression to go out into the country that our State was in any way unfriendly to this legislation.

Mr. FORD. Most friendly, Mr. Cullen. Only we do not wish to disturb an existing mechanism. In your own city you know it is done on a huge scale. We simply wish to make it permissive as to the State appropriation, as distinguished from local appropriations.

Mr. CULLEN. And if it is made permissive, you are of the thought that in all probability an appropriation would be made?

Mr. FORD. I cannot commit the Governor on that point, Mr. Cullen.

Mr. LEWIS. You made the point that there ought to be some further definition with respect to the liability of relatives. Is that based on the thought that there is more freedom or less freedom of action on that subject matter under this bill than other subjects?

Mr. FORD. It would all depend upon the rules of the Federal Administrator. If the Federal Administrator should take the point of view that it is undesirable to enforce any responsibility of relatives, as I read the bill, he could in his rules make it compulsory on the States, or the States would lose their Federal appropriations. What we would like to have would be a clarification in the statute itself providing that the States may make appropriate provisions for enforcing the responsibility of relatives in connection with this matter. So that we will not have the spectacle under any conditions of children abundantly able to support their parents in some way withdrawing from the picture and leaving them to the old age assistance fund.

Mr. LEWIS. Would it not be equally true, if true at all, that the Social Insurance Board might insist on the waiting period being not greater than 3 days, or the period of benefits not less than 6 months? Is there anything in the bill that authorizes one line of demand more than the other?

Mr. FORD. Only this, Mr. Lewis. It is our feeling that this is of such great importance, more than the matters that you have just mentioned.

Mr. LEWIS. Of more importance than the waiting period and the length of time that the service should be given?

Mr. FORD. On this old-age assistance; yes. I am referring only to old-age assistance. My department has only to do with old-age assistance, mothers' aid, and child welfare, those three sections of the bill. I am only speaking with reference to those and not with regard to the unemployment feature.

Mr. LEWIS. But you hve no particular clause in the bill in mind under which your particular subject would be more susceptible of treatment?

Mr. FORD. Yes; I have. I have a very concrete suggestion.

Mr. LEWIS. That is what I want.

Mr. FORD. It is in section 4 (e), Mr. Lewis.

Mr. LEWIS. Will you read the clause that you have in mind.

Mr. FORD. This is on page 3, section 4 (e):

> Furnishes assistance at least great enough to provide, when added to the income of the aged recipient, a reasonable subsistence compatible with decency and health; and, whether or not it denies assistance to any aged persons, at least does not deny assistance to any person who * * *.

And then follows a list of those to whom the assistance must not be denied. We suggest that this wording be changed so that it will read:

Furnishes assistance at least great enough to provide, when added to the income of the aged recipient—

and this is new—

and to the contribution in money, subsistence or service, from legally responsible relatives or others, to provide a reasonable subsistence compatible with decency—

and so on. The rest of the provision remains the same.

That is our suggestion and the only reason that is emphasized above some other requirements that might be thought of is that we deem it of more importance.

Mr. Reed. Mr. Ford, in the practical working out of the old-age-pension system in New York State you take a lien, do you not, on the premises or homes of those who receive the aid?

Mr. Ford. We do; yes, sir.

Mr. Reed. What is the average rate in New York?

Mr. Ford. The average rate for the whole State is approximately $20 a month. That runs approximately $24 a month for New York City and $17 a month in the rest of the State.

Mr. Reed. That brings me to the very point I want to inquire about. What, if anything, is done in regard to relieving these old people from the burden of taxation, which is gradually eating up their home?

Mr. Ford. The allowance may be used for the purposes of supporting that home while they are occupying it, and then on their death the State takes its lien.

Mr. Reed. What about the taxes that have to be paid?

Mr. Ford. That is included for the support of the home.

Mr. Reed. You mean the State assumes the taxes?

Mr. Ford. Well, they are paid from this allowance. The allowance must be great enough to take care of that. You see, New York has no maximum allowance.

Mr. Reed. I ask you that question because in some cities, of about 20,000 population, people may have owned their homes for many years, and finally get to a point where they have no other income, but they do have a roof over their head. The question is whether the taxes which in some towns are comparatively high ought not to be taken care of by the State in the case of people who are old, but who are permitted to keep their homes under this State aid.

Mr. Ford. There is no limit in the law. That is in the discretion of the administration and the allowance is made large enough so that the recipient may pay those taxes and keep his home. That is desirable from the social standpoint, because it is his own home that he has lived in, and from the economic standpoint it is usually cheaper than any attempt to provide rent for that purpose.

Mr. Reed. I know that that has been quite a stumbling block in some States, and I was wondering how you handled it in New York.

Mr. Ford. We are carrying that, because we have no maximum limit, and whatever the taxes may be, they may be included in the allowance to the recipient.

Mr. Reed. So in making out their applications, that is an item that they ought to bring to the attention of the authorities.

Mr. Ford. First of all the budget is made out including all the items that ought to go into the relief, and that can be included among others. Then the recipient is allowed that. That is our present procedure.

Mr. Reed. You spoke about 10 counties that were not cooperating.

Mr. Ford. Not on old-age relief. That is on the mothers' aid.

Mr. Reed. Would you mind putting in the record what those 10 counties are? I am curious to know which they are. Have you those names with you?

Mr. Ford. I have them in my brief case.

Mr. Reed. Will you put them in the record?

Mr. Ford. I shall be very glad to do so. I may say that the counties are the smaller counties, and our estimate is that if all the counties went in, it would add only some $250,000 to an already existing expenditure of almost $13,000,000.

Mr. Reed. Thank you.

The Chairman. We thank you, Mr. Ford, for your appearance and the information you have given the committee.

Mr. Ford. I thank the committee.

The Chairman. Last week, at the conclusion of Dr. Townsend's main statement, he said that the condition of his health was not such that he could undergo the effort necessary to submit to cross-examination by the committee with reference to his position on old-age pensions. He did state that Mr. Francis Cuttle would be glad to appear here this morning and answer such questions as the committee might deem pertinent to propound. When we assembled this morning, at 10 o'clock, Mr. Cuttle did not respond when his name was called. I notice that Dr. Townsend is now in the hall, and if it is still the doctor's desire that Mr. Cuttle appear and be cross-examined, or questioned by the committee, he will come forward.

ADDED STATEMENT OF DR. F. E. TOWNSEND

The Chairman. Doctor, is it your desire to take the stand now, and complete your statement?

Dr. Townsend. Yes, Mr. Chairman. I must ask your indulgence, however, for a slight change in our program. Mr. Cuttle is not able to be present, as we expected, and Mr. Glen Hudson will substitute in his place, if that is agreeable to the committee.

The Chairman. Would you object to submitting to cross-examination yourself, for a time?

Dr. Townsend. I shall be very happy to. So far as statistical information is concerned, I should prefer to have that furnished by a statistician and actuary, which Mr. Hudson is.

Mr. Knutson. Mr. Chairman, may I ask the doctor; did you originate this plan, Doctor?

Dr. Townsend. Yes, sir.

The Chairman. Does the witness who is now being suggested as the person to answer questions have the same authority to speak for your organization that Mr. Cuttle would have?

Dr. Townsend. Yes. This is Mr. Glen Hudson, the gentlemen here on my right.

The Chairman. I understand that you are ready to answer questions that may be propounded by members of the committee?

Dr. Townsend. Yes, sir.

The CHAIRMAN. The Chair recognizes Mr. Hill.

Mr. HILL. Dr. Townsend, I want to ask you some questions about the provisions of the bill, H. R. 3977, introduced by Congressman McGroarty, which embodies, as I understand it, the Townsend old-age pension plan?

Dr. TOWNSEND. It does.

Mr. HILL. Section 1 of that bill provides that the act shall be cited as the Townsend Old Age Revolving Pension Act.

Section 2 names the individuals who may be eligible for pension under this bill.

> That every citizen of the United States, sixty years of age and over, or who shall attain the age of sixty years after the passage of this Act, while actually residing in the United States, shall be entitled to receive, upon application and qualification, a pension in the sum of $200 per month during the life of the pensioner.

There are conditions to that, outlined in the bill. The first condition is that—

> The pensioner shall discontinue and refrain from all gainful competitive pursuits or salaried positions of any kind; (b) the pensioner shall convenant and agree that he or she will within thirty days of receipt of said pension expend all of the same for goods, commodities, or services within the jurisdiction of the United States; * * *

Now, regardless of the income, from whatever source received, any citizen of the United States receiving that income, who is over the age of 60 years, would be entitled to the $200 per month pension.

Dr. TOWNSEND. Yes. I agree to that.

Mr. HILL. That would, of course, include the wealthy people as well as the classes of people all down the line, all the way down to those who are in a state of poverty.

Dr. TOWNSEND. We agree that the plan shall be nondiscriminatory and applied to all citizens equally.

Mr. HILL. In other words, it would apply to John D. Rockefeller, Sr., to Henry Ford, to J. P. Morgan, as well as to a man who has no means of income at all?

Dr. TOWNSEND. If they wish to acquire the pension under the provisions of the act.

Mr. HILL. That is, they would be eligible.

Dr. TOWNSEND. Yes.

Mr. HILL. In order to get the pension, an individual would have to refrain from all gainful competitive pursuits or salaried positions of any kind. In other words, he would have to retire from the field of active service.

Now, I pass to the next condition. The next condition is that—

> The pensioner shall covenant and agree that he or she will within thirty days of receipt of said pension expend all of the same for goods, commodities, or services within the jurisdiction of the United States; * * *

A man who is receiving an income from rents, or in the form of interest of, say, $500 a month, but who has no salaried position and is receiving nothing for his personal services, is not occupied in some competitive pursuit, would be eligible for this $200 a month pension, I take it.

Dr. TOWNSEND. If he gave up his position as manager of his business and provided a job for someone else, certainly.

Mr. HILL. Suppose he has no salaried position at all, but, from capital investments, he receives an income of, say, $500 per month,

and he spends $200 of that for living expenses, and saves the other $300. If he is eligible to receive this pension, he would get $200 from that source. How would you determine if he has expended the $200 that he has received as a pension, as contrasted from the $200 that he ordinarily spends on his living expenses out of the $500 income?

Dr. TOWNSEND. The idea is to get the $200 into circulation. He may be hoarding his entire income of $500 and expending but very little of it. We are looking to the services of these elderly people to get money into circulation and to create jobs for other people. If he applied for a pension we should require him to hire an assistant, hire a manager for his business. If he did not do that, he would not be eligible to the pension.

Mr. HILL. If we believe that his services in expending this money are going to be of exactly the same importance as if the task were done by an entirely different person.

Dr. TOWNSEND. The idea is to get money into circulation in sufficient quantities to keep a constant demand for production and consumption, an equalization of production and consumption. It is going to take eight millions of people, on $200 a month, to do this, to bring our consuming ability——

Mr. HILL. I understand that, and we will get to that later, but I want a direct answer to this question. I am assuming that this individual, whom I am using for illustrative purposes, is now receiving $500 of income, not from salaries, but from investments, and is expending, we will say, $200 for his living expenses. We give him a $200 pension. How are you going to determine whether he is spending the money received from the pension or whether he is spending the money he receives as his income from his capital investments?

Dr. TOWNSEND. We do not need to know that. It is not necessary. We know that he is going to take the oath and actually spend the additional $200. That is all we are interested in.

Mr. HILL. How are you going to determine that he is expending it, after he takes the oath.

Dr. TOWNSEND. There are various ways in which that may be done. That can all be provided for through the way in which the Government handles these pensions.

Mr. HILL. I want to get this clear, if I may.

Dr. TOWNSEND. Yes?

Mr. HILL. How are you going to know whether it is the $200 pension money that he gets that he is expending, or the $200 that comes out of his income, that he has previously been expending, and now continues to expend?

Dr. TOWNSEND. Well, I will suggest one way in which it might be very definitely determined. Have the Government require all these pension checks to be placed to the credit of individuals in banks throughout the country—designated banks. There the $200 would have to be taken out by the individual as against a checking account, and it would have to be depleted at the end of 30 days, and the canceled vouchers and checks would show exactly what was done with the money.

Mr. HILL. If he should do that, then he might save the $200 out of his regular income that he had been expending for his living expenses. So it would be just a stand-off.

Dr. Townsend. All right.

Mr. Hill. He would not be putting any more money into circulation than he had previously put into circulation.

Dr. Townsend. Unquestionably, he would. He is already spending some of his $500 income. As his means increase, so will his desires. That is human nature everywhere. He will expend much more freely of this pension, because he has to spend it, than he would if he had to delve into his own savings.

Mr. Hill. We might, of course, make that a very extreme case, of a man who might be receiving, if he were one of these very wealthy people, an income of $1,000,000 a month.

Dr. Townsend. Certainly.

Mr. Hill. He might have retired from business—might have a salaried manager handling his business already—and yet he would get a $200 a month pension, and you would require him to spend that $200 a month, while he may be spending all that he can spend out of his $1,000,000 income. How are you going to determine which money he is expending? That is the question that seems to me that might cause some difficulty in the administration of the act. How are you going to determine what money he is expending; and if so, whether he is expending more money then—or will be expending more money then—than he is now?

Dr. Townsend. Gentlemen, there are so few individuals, wealthy individuals, who will apply for this money, that the aggregate is going to be insignificant. Nevertheless, we cannot make discriminatory laws in this country; we should not. It should apply to one individual as well as another; and if he chooses to take advantage of this method that we have of circulating money, let us make it apply to the poorest as well as to the richest.

Mr. Hill. Under subdivision (b) of section 2 it is provided that this pension may be expended for "goods, commodities, or services within the jurisdiction of the United States."

Just for illustration, have you budgeted or listed the expenditures in items indicating what this money might be expended for, to come within the provisions of the bill?

Dr. Townsend. I do not just understand the trend of your question.

Mr. Hill. What do you have in mind principally as the purposes for which this money might be expended, so that the pensioner may come within the provisions of this bill in spending this money for "goods, commodities, or servcies within the jurisdiction of the United States"?

Dr. Townsend. Why, we shall not restrict that expenditure at all. That is the idea in making the fund adequate, so we can have a variety of wants satisfied. Our Government, for instance, does a business in luxuries. The people of this country deal in luxuries to the full extent of the value of necessities. We want to place in the hands of people an opportunity to supply themselves with some of the luxuries of life in order that all avenues of production may be stimulated, not merely the production of necessities—beans and bacon. We want everything else stimulated as well, and we must have adequate provision in this expenditure provision to permit them to do that.

Mr. Hill. I take it, of course, he would have to spend it in good faith, even though he spent it for luxuries. He just could not go out

and squander it in order to get rid of it, so that he may be eligible to receive $200 the next month.

Dr. Townsend. Why not? We do not care what he does with it. That is immaterial. Let him have carte blanche. Let him buy whisky with it if he wants to kill himself off as quickly as he chooses. That is immaterial. It is commerce—business—that we want in this country. We are not going to regulate peoples' morals in the least when we give them this money to expend.

Mr. Hill. Suppose a husband and wife qualified to receive this pension, they would be receiving $400 per month. Let us say they have a family of grown-up children. Would it be permissible for those children to live with them, and be supported from the provisions supplied with this pension money in the home?

Dr. Townsend. Certainly. Why not? Why not let the elders buy commodities and give to their children if they like? That is immaterial. The children are not going to lie down and do nothing because of this. The children are going to want money. They cannot get it. They are going to want money and they are going to go out and earn it, if they are given the opportunity.

Mr. Hill. But they do not have to go out as long as $400 would supply their needs, if they do not want to go.

Dr. Townsend. Why, if they wanted to sit down and eat and wear clothes, and have no money to spend, certainly they might do that. But you will not find one individual in 10,000 who will consent to that.

Mr. Hill. But he could do it if he wanted to, under the provisions of this bill.

Dr. Townsend. Yes.

Mr. Hill. Turning to section 3, that provides the means for raising the money with which to pay these pensions. It provides:

> A tax of 2 per centum on the gross dollar value of each business, commercial, and/or financial transaction done within the United States.

That may be increased, under the provisions of this bill, 50 percent, or decreased 50 percent, by the President?

Dr. Townsend. Yes.

Mr. Hill. That would include practically every business transaction of every nature.

Dr. Townsend. Yes, sir.

Mr. Hill. It would include, of course, the sale by a manufacturer to a wholesaler; the sale by a wholesale merchant to a retail dealer; there would be a tax on sales from the retail merchant to the consumer. That is in the ordinary channels of commerce or business. Would it apply to a farmer who sold a cow or a pig?

Dr. Townsend. Certainly. The farmer will have to be registered. He will have to take out a license the same as anyone else.

Mr. Hill. Would it apply to a house wife who sold a dozen eggs?

Dr. Townsend. The farmer and his wife——

Mr. Hill. Or a pound of butter?

Dr. Townsend. The farmer and his wife will constitute one set of licensees, of course; one business. Their aggregate sales will have to be computed at the end of each month.

Mr. Hill. Would it apply to a man who sold to his neighbor, for instance, a second-hand or used automobile, or a horse; in other words, anything constituting a commercial transaction which might be measured in dollar value would carry this 2-cent tax.

Dr. Townsend. If it is anything in the line of regular business.

Mr. Hill. Regular business?

Dr. Townsend. Yes, such as the farmer's sale of grain and farm products in general.

Mr. Hill. You say, "Business, commercial, and/or financial transaction."

Dr. Townsend. All right; let us include that, even if he sells a second-hand automobile.

Mr. Hill. Although it was not the regular business of the man who sold it, he just had the automobile and wanted to get rid of it, to dispose of it.

Dr. Townsend. It would make no difference in the outcome.

Mr. Hill. What I want to get at is this: To what extent does this act apply? That is, how far does it go, and to what kind of transactions does it apply? I understand from your statement that it applies to every possible transaction—business, commercial or financial—which is measurable in dollar value.

Dr. Townsend. It would make no difference. We say every transaction applicable to a business of any description; if the man is dealing in second-hand cars or anything of that kind, we should expect him to be registered. A single transaction of the sort asked about now and then need not be embraced in the general licensing provision, of course—that is, an exceptional thing of that sort.

Mr. Hill. How are you going to check up on that man who makes a casual sale?

Dr. Townsend. You do not have to if the sales are casual and do not occur regularly. It would make no difference.

Mr. Hill. You mean you would not tax him on that sale?

Dr. Townsend. I would not tax him on a single sale of that sort; no.

Mr. Hill. Then the language in section 3 is a little broad?

Dr. Townsend. Possibly.

Mr. Hill. I am referring to the language that reads:

> There is hereby levied a tax of 2 percent on the gross dollar value of each business, commercial, and/or financial transaction done within the United States.

Dr. Townsend. Those are details which can easily be arranged. You do not have to follow the absolute wording in any of this, because the Secretary of the Treasury and those who have charge of the detailed arrangement of the collection of the tax must necessarily be given some latitude.

Mr. Hill. But if you have it specifically in the act itself, he would not have any authority to exercise any latitude. You would make your amendment here. That is the point.

Dr. Townsend. It is immaterial. It can be left just as it stands, and all of these transactions can be recorded by every one who is licensed.

Mr. Hill. Is that your idea?

Dr. Townsend. That would be my idea, because we want volume of transactions.

Mr. Hill. You have to have volume to get the money, do you not?

Dr. Townsend. We have to have volume, certainly.

Mr. Hill. But if you should say that you confine it to regular dealers or to those engaged regularly in the selling of goods, mer-

chandise, commodities, and so forth, then you would leave out the casual seller.

Dr. TOWNSEND. It is not necessary to leave it out. I would not leave it out. It would make very little difference to the general outcome; very little difference.

Mr. HILL. Would it not be rather a difficult matter to make this tax apply to every transaction? Neighbors among themselves deal in things that have a dollar value so far as the transactions are concerned, although actual cash may not have passed. Under this section 3 every transaction that is measurable in dollar value is subject to the tax. That would ramify and go through the whole social structure of our civilization. We are dealing back and forth all the time. Would it not be rather difficult to carry it to that extreme, so that every transaction would be subject to this tax?

Dr. TOWNSEND. Why would it be difficult, any more difficult than it is to keep books on anything else. You know what you are doing. It is a matter of record, that is all.

Mr. HILL. I am trying to get your idea, Doctor. I just ask these questions to bring it out.

Would this tax apply to bank deposits or withdrawals of bank deposits? That is a financial transaction.

Dr. TOWNSEND. A bank deposit would not come within the provisions of this act for the simple reason that a man depositing his money in the bank is not engaging in any transaction. There is no buying or selling engaged there at all.

Mr. HILL. If there were payments of interest on bank deposits, it would apply to that transaction?

Dr. TOWNSEND. The bank, of course, is going to be subject to this tax through their general transactions, their income from interest and other sources.

Mr. HILL. That is, their income from interest and the payment out of interest by the bank to depositors in the bank. Would it apply both ways?

Dr. TOWNSEND. The man who received the interest from the bank certainly would have to record it.

Mr. HILL. I do not know just how he would be placed here. Apparently the theory of the proposed legislation is that the man who does the selling pays the tax. Of course, in a financial transaction it is a little difficult to follow that out.

Dr. TOWNSEND. The man who sells the use of money would be the man to pay the tax.

Mr. HILL. That would be the man who received the interest?

Dr. TOWNSEND. Yes; the man who received the interest would be the man to pay the tax.

Mr. HILL. He would pay a 2-percent tax on the amount of interest so received?

Dr. TOWNSEND. Certainly.

Mr. HILL. If the bank received the interest, the bank would pay the tax?

Dr. TOWNSEND. Certainly.

Mr. HILL. If the depositor received the interest, the depositor would pay the tax?

Dr. TOWNSEND. Certainly.

Mr. Hill. It would be 2 percent on the transaction. It the interest were paid under two or three different transactions or more than one transaction, there would be a 2-percent tax on each transaction?

Dr. Townsend. On each transaction.

Mr. Hill. It is a 2-percent tax. I do not think it would make any difference.

The Chairman. On the amount of the loan or the interest he got from the loan?

Mr. Hill. It might make a difference as to the time the tax would be paid, but the amount would be the same whether it was all rendered in one statement or segregated into different transactions, I take it. If a man received $100 interest on each of three transactions, that would be about what, $6 tax? Whether he paid that tax upon the receipt of each installment of interest or whether he paid the tax upon the total amount of interest would make no difference in the tax.

The Chairman. Is it 2 percent of the interest or 2 percent of the transaction?

Mr. Hill. I take it the interest would be the transaction. Dividends on stocks would pay this tax?

Dr. Townsend. Yes, sir.

Mr. Hill. That is, the one who receives the dividends. How about pay-roll checks, would there be any tax on them?

Dr. Townsend. No. We propose to exempt wages.

Mr. Hill. I see you have a provision here about salaries being exempted.

Dr. Townsend. Yes. That would constitute double taxation, in our view.

Mr. Hill. "Salaries for individual services are hereby exempted from the tax provision of this act." That is what you mean by that provision?

Dr. Townsend. Yes, sir.

Mr. Hill. While I am on that subject, a pensioner gets $200 a month. Would he pay income tax on that.

Dr. Townsend. A pensioner gets what, please?

Mr. Hill. $200 a month. Does he pay an income tax to the Federal Government or the State government, if they have income taxes, on that $200?

Dr. Townsend. No. He is going to pay his tax when he spends his money, the same as all other expenditures will pay.

Mr. Hill. Of course, everybody will do that.

Dr. Townsend. Yes.

Mr. Hill. Nonpensioners as well as the pensioners will pay this tax. When they spend their money, at least it will be added to them as a cost. But he is in the same situation as any other person who is receiving an income and spending it. You have no provision in this bill so far as I have found that would exempt him from the payment of the Federal tax on incomes.

Dr. Townsend. Oh, yes; you will find that where we exempt this pension from all forms of attachment, garnishment, or execution.

Mr. Hill. Where is the language? You do say in section 3 that this tax will be levied in addition to any other Federal tax on goods or commodities, but you do not say anything about the tax on incomes in the form of pensions.

Dr. Townsend. Yes, there is a provision. I do not locate it just at the present time.

Mr. HILL. We will pass on, and maybe your assistant will be able to point that out. We will get that a little later. I did not find it. If it is in there, I will be glad to have it pointed out to me.

Now, go to subdivision (a) of section 3:

> It is hereby provided in order to facilitate the collection of this tax that all sellers of goods, commodities, and commercial things of value shall obtain a license upon payment of a fee, the amount thereof to be fixed by the Secretary of the Treasury, who is empowered with full authority to use his discretion as to methods and means of collecting this tax.

That brings up the question again that we were discussing a while ago, as to the extent of the application of this tax with reference to transactions, whether it referred to casual transactions as well as transactions in the general course of commerce, finance, or business. If it applies to all transactions, then every citizen who might want to make a sale of any commodity that might be would be required to obtain a license and to pay a fee for a license before he would be authorized to make such sale.

Dr. TOWNSEND. No, our provision is that all people who engage in selling as a business shall be taxed, shall pay this tax.

Mr. HILL. Is that your construction of that language, Doctor?

Dr. TOWNSEND. Yes.

Mr. HILL. That all sellers of goods, commodities, and commercial things of value shall obtain a license?

Dr. TOWNSEND. Yes.

Mr. HILL. It does not apply to the casual seller, then?

Dr. TOWNSEND. No; it should not.

Mr. HILL. They must be engaged in the business of selling?

Dr. TOWNSEND. In the business of selling.

Mr. HILL. Suppose a farmer growing wheat and livestock; he is engaged in the business of selling what he produces as well as in the business of producing these commodities. Would he have to take out a license?

Dr. TOWNSEND. He certainly would have to take out a license. He is engaged in business, the business of producing commodities for foodstuffs.

Mr. HILL. Any producer who produces for the purpose of selling products——

Dr. TOWNSEND. Yes.

Mr. HILL. Would have to take out this license?

Dr. TOWNSEND. He would.

Mr. HILL. That would apply very widely to the people of the country, generally.

Dr. TOWNSEND. Certainly.

Mr. HILL. In section 4:

> Any qualified pensioner who, for any justifiable reason, has failed to legally receive and disburse said pension, may, upon proper proof, be reinstated and thereafter receive the pension.

That is for a justifiable reason. Suppose he is unable to establish a justifiable reason. What happens to him in the future as to the pension? Is he forever barred?

Dr. TOWNSEND. He might be under the circumstances if it were deliberate, if his violation of the principles were known to be deliberate. Certainly, it would deprive him of his pension.

Mr. Hill. But if he had a justifiable reason, then upon proper proof of that fact he might be reinstated and thereafter receive his pension?

Dr. Townsend. Yes, sir.

Mr. Hill. I can conceive where there might be justifiable reasons, a man might be sick and unable to go out and transact business and spend his money.

Dr. Townsend. Certainly.

Mr. Cooper. On that particular section of the bill which Mr. Hill has been asking questions about, Doctor, paragraph (a) on page 3, would not this be an occupational tax?

Dr. Townsend. An occupational tax?

Mr. Hill. Yes.

Dr. Townsend. In what respect; just what would you mean there?

Mr. Cooper. In the respect that an occupational tax is usually levied on the occupation for the privilege of doing business, and so forth.

Dr. Townsend. Oh, certainly it would.

Mr. Cooper. Do you think the Secretary of the Treasury would have a right to levy and collect a tax of this kind, or do you think it would require an act of Congress?

Dr. Townsend. You would have to designate what you mean by an occupational tax, certainly.

Mr. Cooper. Yes, you agree that this is an occupational tax, a tax on the privilege of doing business, what is usually termed an "occupational tax." Do you think the Secretary of the Treasury would have authority to levy and collect such a tax, or do you not agree that it would require an act of Congress definitely providing the amount of the tax?

Dr. Townsend. All occupational taxes would embrace too many things. An occupation might be digging a ditch. But we do not propose to tax salaries, and yet that is an occupation. We propose to tax business. That is, the commercial business of selling.

Mr. Cooper. You will concede that the courts might hold that this tax sought to be levied by this provision of your bill is an occupational tax?

Dr. Townsend. No, not necessarily; not in the broad sense, because an occupational tax might take in all sorts of enterprises.

Mr. Cooper. Assume, then, that the courts did hold that this was an occupational tax; do you think the Secretary of the Treasury would have a right to levy and collect that type of tax?

Dr. Townsend. In going before the public with this, the Secretary of the Treasury could easily designate what form of tax should be used and designate specifically what he meant by this tax; instead of making it occupational it should be designated as exactly what it is, a business tax, a tax on organized business.

Mr. Cooper. All right. Assuming that the Secretary of the Treasury should levy and undertake to collect the type of tax that you have in mind, whatever you might term it, and assuming then that the courts came along and held that that was an occupational tax, do you think then that that tax levy by the Secretary of the Treasury without an act of Congress would be valid?

Dr. Townsend. I would not say whether it would be valid or whether it would not.

Mr. Cooper. Of course, it would have to be valid to accomplish the desired results, would it not?

Dr. Townsend. Yes, certainly.

Mr. Cooper. Have you considered the legal phases of that question?

Dr. Townsend. I am not a lawyer. I know that any tax that is deemed just and right and advisable by the American people can be enacted into law.

Mr. Cooper. But you are not enacting the tax into law here, you simply are authorizing the Secretary of the Treasury to levy and collect a tax and fix the amount.

Dr. Townsend. All right; he could fix it.

Mr. Cooper. You are not fixing it by act of Congress, you are delegating that authority to the Secretary of the Treasury. I am just wondering how carefully you or your associates have examined the legal phases of that question.

Dr. Townsend. It seems to me that is crossing a bridge before you get to it.

Mr. Cooper. You understand, when we enact legislation we have to try at least to enact it in a way that we think it will be sustained. It can accomplish no useful purpose whatever if we enact something that we have reason to believe is not valid and sound at the time it is enacted. You certainly concede that, do you not?

Dr. Townsend. If we designate who shall be taxed, it seems to me it would be perfectly within the discretion of the Secretary of the Treasury to say how it should be done.

Mr. Cooper. Yes, but the point is, Doctor, you do not levy the tax in this bill by act of Congress; you delegate the authority to the Secretary of the Treasury, an administrative officer of the Government, to levy and fix the amount of the tax.

Dr. Townsend. If we find difficulty in doing that, it is going to be a very simple matter to change the provisions of the bill.

Mr. Cooper. You would feel that that should be changed now, before it is enacted, if there is reason to anticipate legal difficulty, would you not?

Dr. Townsend. Certainly.

Mr. Hill. Carrying out the idea that Mr. Cooper has been asking about, that provision says that the Secretary of the Treasury shall issue this license in such amount as he may fix. It is hardly to be supposed that you have in mind that he should require the same size fee for a license from a man who makes a casual sale as he would from a man that is engaged in a business that amounts to millions of dollars a year in value. That is hardly to be supposed.

Dr. Townsend. I should think not, of course.

Mr. Hill. So that the Secretary of the Treasury here is delegated the authority, or at least it is sought to delegate to him the authority to fix these fees in the various amounts according to the various businesses' taxes. I think that does run into the legal objections that Mr. Cooper directed attention to. There is a provision in the Constitution, as I recall it, that requires uniformity in the levying of taxes. That would violate that, would it not? We are just pointing these things out—of course, they might be limited—but we just want to call attention to the fact of what the committee would be up against in considering provisions of that kind.

Dr. Townsend. Certainly.

Mr. HILL. In section 5, the bill provides that:

Immediately after the passage of this act, the Secretary of the Treasury shall authorize all national and State banks, members of the Federal Deposit Insurance Corporation, to credit each properly identified pensioner the first day of each calendar month in the sum of $200, and said banks shall be reimbursed by the United States Treasury for the amounts so credited to pensioner or pensioners.

It may not be a very serious criticism, but it occurs to me that in the language of that particular section, you are leaving open the opportunity for imposition upon the Government and upon the banks by these pensioners. You say the members of the Federal Deposit Insurance Corporation shall credit these amounts to pensioners. Take for instance in the city of Los Angeles, you probably have 20 or more banks there that are members of the Federal Deposit Insurance Corporation. Which one of these banks is going to credit which pensioner?

Dr. TOWNSEND. These pensioners should be given identification cards so that a presentation of this card or proof that they were bona fide pensioners would make it possible for them to draw their money anywhere, in any of these banks.

Mr. HILL. Suppose they go to more than one bank and draw their money?

Dr. TOWNSEND. They could not very well do that, because they would have to show proof that they had not already drawn it when they presented their card. They would have to show proof.

Mr. HILL. Suppose they falsified the proof? An honest man would not do it, but we have all kinds of people. We recognize that fact. Suppose a man should submit this proof. Why leave that door open to imposition or fraud?

Dr. TOWNSEND. You cannot pass any law that will not have someone attempting to violate it. The punishment for fraud in this is going to be a tremendously severe one. It is going to cut off the entire future income of all of these elderly pensioners. That will be a very drastic punishment, which nobody but a fool would ever attempt to violate.

Mr. HILL. We could concede that, but you know we have people who do act foolish.

Dr. TOWNSEND. We have Government inspectors galore traveling about now to see whether or not the income-tax law is evaded.

Mr. HILL. They are simply trying to get out of paying a tax. Here is an opportunity for a man to collect his $200 probably more than once from two or more different banks. Do you not think that ought to be made more specific, and a little more attention paid to the manner in which the money is to be paid out, in order to protect the Treasury of the United States, and protect the banks?

Dr. TOWNSEND. Those provisions undoubtedly will be strengthened by the details of the working out of the plan, but there is going to be very little danger of that. The violations will be so small as to be not worthy of consideration.

Mr. HILL. Section 6 of the bill provides:

All salaries for individual services are hereby exempted from the tax provisions of this act.

We referred to that once before. That simply means that the man that receives a salary for personal services is not to be taxed?

Dr. TOWNSEND. He is not to be taxed.

Mr. HILL. But it does not exempt the salary paid out for commodities? It does not prevent the transaction in which the salary is paid out for commodities from being taxed?

Dr. TOWNSEND. That will be taxed.

On page 2, line 9, you will find what we were discussing a moment ago.

Mr. HILL. Subdivision (d).

Dr. TOWNSEND. On page 2, line 9:

> This pension shall be wholly exempt from attachment, garnishment, or execution.

Mr. HILL. That does not say anything about a tax.

Dr. TOWNSEND. That says nothing about the tax.

Mr. HILL. That is from attachment, garnishment, or execution. That is civil procedure as between individuals.

Dr. TOWNSEND. Yes.

Mr. HILL. Not between the Government and the individual.

Dr. TOWNSEND. That would be considered in the light of a salary, all these pensions.

Mr. HILL. But a salary is exempted from the tax provisions of this act, not from the tax provisions of any other act.

I just want to get your reaction to it. I am not making a particular point of it, but I just want to know what the bill provides as to whether it shall be subject to the tax or not.

Now, Doctor, the title of the bill is:

> To promote the general welfare, to assure permanent employment and social security for all, and to stabilize business conditions through an assured definite and constant circulation of money and credit by the National Government, and for other purposes.

Then, in section 1, you call it the "Townsend Old-age Revolving Pension Act." Just why do you call it the "Revolving Pension Act"?

Dr. TOWNSEND. Because the money which is paid by the Government will go into a community and be immediately collected from that same community within the month. The money collected will go to the Treasury of the United States, and come back the first of every month right into the community whence it was collected. In other words, every community in the land will be compelled to do its pro rata share as is every individual in the land to pay his pro rata share of the taxes and to help carry this pension roll. That could not be done except in time of universal prosperity. That is what we propose to do, to have universal prosperity established by the expenditure of two billions of dollars, approximately, scattered equally all over the United States, making important buying centers of every community. Then when prosperity is universal, when everybody has access to a good job, except those who are retired, then it is going to be safe and fair and just to say to every individual in the land: "Now, you have access to a good means of livelihood, you are enjoying the functions of government which are provided for all. It is your duty to pay your share of the cost of government. We are going to see that you do it."

A small amount of every transaction that is made involving money will be pinched off for the purposes of government.

Mr. Hill. But where does the term "revolving" come in? My understanding of a revolving fund is a fund that goes out and comes back, and goes out and come back, so that the same fund revolves.

Dr. Townsend. That is exactly it. That is exactly what this will do.

Mr. Hill. This is not the same fund, you are collecting new taxes every month and these new taxes go into the Treasury and the money is paid out of the Treasury.

Dr. Townsend. But the same amount of money will be involved. We will not have to use any more.

Mr. Hill. That does not make it a revolving pension, though. I am just wondering why you use the definition of a "revolving pendion act."

Dr. Townsend. I do not see why it would not revolve, revolve to the Government and right back again into the community.

Mr. Hill. Just define, then, what you mean by a "revolving fund" so that we may get your idea, your definition of a revolving fund.

Dr. Townsend. My idea is an amount of money that is collected regularly by the Government, and dispersed again to the people regularly, a like amount. That certainly is a revolving fund, if there is any.

Mr. Hill. Would that same definition apply to taxes, general taxes that are collected in a certain amount and paid out to the veterans in a certain amount; that is, the same amount paid out and the same amount collected, practically so, because it is changed by death and new applications and things like that, but there is very little change in the tax rate? Would that be a revolving pension fund?

Dr. Townsend. That has the nature of a revolving fund, of course.

Mr. Hill. In the ordinary expenses of government, we have certain fixed charges, and it is necessary for the Congress to levy taxes to take care of those charges. It fixes a certain rate of tax, which operates over a period of years without change, and brings in practically the same amount of money under what we call normal conditions. Then we pay out about the same amount of money. Is that a revolving fund?

Dr. Townsend. I should think so. Why not?

Mr. Hill. Then what is there to distinguish this particular fund from any other tax fund?

Dr. Townsend. It is the same thing that distinguishes John Jones from Tom Jones. It is a name.

Mr. Hill. The name might as well apply to Tom Smith.

Dr. Townsend. Yes.

Mr. Hill. So you just call him John Jones, but there is no reason why you should not call him Tom Smith?

Dr. Townsend. There is no reason why we should not, of course.

Mr. Hill. You might call it a sales-tax fund with just as much propriety.

Dr. Townsend. All right.

Mr. Hill. With a little more propriety, might you not?

Dr. Townsend. All right; what's in a name?

Mr. Hill. It seems to be rather copyrighted as the "Townsend Old-Age Revolving Pension Act." I am just wondering why you chose that particular name.

The title of the bill, as I stated, sets out that it is to assure definite and constant circulation of money and credit by the National Govern-

ment, and for other purposes. One of your purposes is to have a sufficient volume of money circulating. That is one of the purposes.

Dr. TOWNSEND. Yes, sir.

Mr. HILL. How many people above 60 years of age are there in the United States?

Dr. TOWNSEND. According to the last census, something over 10,365,000.

Mr. HILL. I think Mr. Witte said it was about 11,000,000, did he not, about 11,000,000 people over the age of 60 years.

Mr. LEWIS. I think it is about 12 percent, Mr. Hill.

Mr. HILL. The doctor is practically correct; 10,365,000.

Dr. TOWNSEND. Something near that; yes. It varies according to the different reports.

Mr. VINSON. 1930.

Dr. TOWNSEND. Of course, there would be a few more than that now. Well, we will say 10,500,000, or for easy figuring, 11,000,000. That is the same proposition; $200 a month for each of the 11,000,000 people would be $22,000,000,000 a year, would it not?

Dr. TOWNSEND. No.

Mr. HILL. No; that is 10 months. How much would that be, 24 billions?

Dr. TOWNSEND. You can readily see that these people are not all citizens. Not all of them would be eligible. Not all of them would apply if they were eligible. So we are calculating on perhaps 7,500,000 people applying for this pension.

Mr. HILL. How do you account for that large reduction? You might make some reduction, I grant you, for those that will not apply. You think that more than a million will fail to apply?

Dr. TOWNSEND. Yes. I am sure that more than a million will fail to apply.

Mr. HILL. Suppose you have 8 million. You say you put it at about 7½ million?

Dr. TOWNSEND. Yes.

Mr. HILL. Seven and one-half million at $200 a month, or eight million, is $19,200,000,000 in a year.

Dr. TOWNSEND. In the year; yes.

Mr. HILL. And one-twelfth of that per month?

Dr. TOWNSEND. Yes; 1½ billions per month.

Mr. HILL. That would take 1½ billions of dollars per month. How much money would it be necessary to have in circulation in order to take care of this pension plan?

Dr. TOWNSEND. One and one-half billion, obviously, plus what we are circulating at the present time.

Mr. HILL. You go on the theory that it is a revolving fund, but you have told us that it is not the same dollars that come back that go in each time.

Dr. TOWNSEND. No; but we are going to force a billion and a half each month into circulation. That is very obvious, that that will circulate, because it has to be circulated.

Mr. HILL. It will not be the same billion and a half, will it? It will be a billion and a half per month, but how much would you increase the volume of circulating currency in order to take care of this pension plan?

Dr. TOWNSEND. Figure what has been done with the dollar. In 1929 it turned over 132 times in the course of a year. At the present time it is turning over about 22 times. If you will strike the medium and tell me when our production capacity and consumptive capacity is at the maximum, then I can tell you something about how many times this will turn over in the course of a month. I could tell you more about what this billion and a half dollars will do in the course of a month.

Mr. HILL. We will have to have a billion and a half dollars going in the Treasury every month——

Dr. TOWNSEND. Yes.

Mr. HILL. And that much coming out of the Treasury every month.

Dr. TOWNSEND. Yes, sir.

Mr. HILL. You just cannot figure a billion and a half going in and a billion and a half coming out in order to take care of that, can you?

Dr. TOWNSEND. It would vary somewhat, of course. There would be more applications or less applications for the pension fund.

Mr. HILL. We all recognize that not only volume of circulating currency but the velocity of the circulation is a potent factor in the matter of dollar values as compared with commodity values.

Dr. TOWNSEND. Yes, sir.

Mr. HILL. Also, in addition to the actual circulating cash or currency, there is a credit circulation under ordinary times that circulates just as cash circulates. Ordinarily they figure that about $9 of circulating credit exists for every dollar of circulating cash. Are you running into any danger of so depreciating the purchasing power of the dollar as to make this $200 per month have very little purchasing power to the pensioner?

Dr. TOWNSEND. Mr. Hudson will quote Mr. Goldenweiser's figures on that, the amount of money that is actually in circulation and the tendency of prices to remain stabilized or to be deflated as a result of certain conditions. I think you can do that.

Mr. HILL. Yes; that is all right.

Mr. HUDSON. The doctor here is not qualified.

Mr. HILL. State your name for the record, please.

Mr. HUDSON. Glen J. Hudson. My residence is Oakland, Calif.

The CHAIRMAN. What is your business?

Mr. HUDSON. Life underwriter for 25 years; insurance. I have a prepared statement here that I would like to read.

Mr. HILL. He wants the question referred to you.

Mr. HUDSON. Will you state the question again, please?

The CHAIRMAN. The stenographer will read it.

(The question was read.)

Mr. HUDSON. My answer would be "no."

Mr. HILL. What are your reasons?

Mr. HUDSON. Because the fact that the amount of actual cash in circulation since the year of 1929, and including 1929, has always been under $6,000,000,000, but your medium of exchange, bank exchange, is approximately nine times that, or 9 for 1. In the year of 1929, this country did $1,200,000,000,000 worth of business. That depreciated down to the year of 1931 one-half. It had also fallen to the year of 1934 to a much greater extent than that, yet comparing the money on deposit in the flush year of 1929, versus 1934, there was approximately the same amount. Therefore, the velocity is the thing that counts, not the quantity of money.

Mr. HILL. In 1929, we had less outstanding currency than we have today?

Mr. HUDSON. Yes, sir.

Mr. HILL. Probably about half?

Mr. HUDSON. I do not think that much; that would be too much.

Mr. Hill. Three billion something?

Mr. HUDSON. I could not agree with half. It is approximately the same; it is a little less, but not half.

Mr. HILL. And circulating with a rapid velocity?

Mr. HUDSON. Yes, sir.

Mr. HILL. Which involved also the building up of credit upon the currency dollars?

Mr. HUDSON. Yes, sir.

Mr. HILL. You had twelve hundred billions total business transactions?

Mr. HUDSON. In 1929.

Mr. HILL. If you accelerate that velocity and increase the volume, what is going to happen?

Mr. HUDSON. There is no doubt there will be an incrase in commodity prices. We hope there will. But we want an increase along the line, salaries as well. In other words, a wage earner who is working for $100 today per month is living upon that $100 sparingly. If that wage is doubled, and that wage earner is permitted to earn $200 a month, could he not well afford an increase in commodity prices? But the increase in the commodity prices would not be to the same extent as the increase in wages.

Mr. HILL. It might be more.

Mr. HUDSON. No; I do not agree with you.

Mr. HILL. That depends on how far you are going to leave the circulation and volume of currency to uncontrolled influences. You can depreciate the dollar down to where it will not have any buying power. You do not want to do that, do you?

Mr. HUDSON. No; we are not going to depreciate the dollar to where——

Mr. HILL. It is very much desired to increase commodity prices to a certain point?

Mr. HUDSON. Certainly.

Mr. HILL. And stabilize them there?

Mr. HUDSON. Yes.

Mr. HILL. What have you in here to control it, to stop it there?

Mr. HUDSON. You have two factors there to stop it and control it. One very strong factor is competition. The amount of tax that will be levied will not tend to increase the production cost or the commodity price to any appreciable extent, because of the fact in levying a 2-percent transaction tax upon the total volume of business done in this country per year, there will be produced a great deal more revenue than will be necessary to take care of the pension fund, even though you drop your total transactions or your total business done from 12 hundred billions down to as low as 900 billions.

Mr. VINSON. What is this 12 hundred billion figure?

Mr. HUDSON. That is the amount of business that is done per year.

Mr. VINSON. Where did you get that figure?

Mr. HUDSON. I got that figure from three sources.

Mr. VINSON. That is a trillion, 200 billion, I believe?

Mr. HUDSON. That is correct.

Mr. HILL. Where did you get it?

Mr. HUDSON. E. A. Goldenweiser, Director Division of Research and Statistics of the Federal Reserve Board, before the Ways and Means Committee of the Seventy-second Congress, on May 2, 1932, stated:

> The total volume of transactions in this country in 1929 was about 1,200 billions of dollars and it decreased by 1931 to about 600 billions of dollars. This is a decrease of 600 billions, largely due to decline in velocity.

Now, Dow-Jones, if you wish further data——

Mr. VINSON. Yes; let us have it. Let us have all three sources.

Mr. HUDSON. If total transactions amount to 1,200 billions, the tax collections would produce 2,400 billion in revenue. This would create a surplus of 6 billion per year which would justify a reduction from the 2-percent tax as provided in the bill.

Dow-Jones News, December 5, 1934, reports 1,165 billions of dollars in business in 1929; deposits in New York district member banks in October 1929, are reported as $13,633,000,000, and in October 1934, at $13,500,000,000.

Mr. VINSON. You mean 13 billion?

Mr. HUDSON. I mean billion; yes. That is in the New York member banks only.

Mr. VINSON. You call a deposit a transaction?

Mr. HUDSON. I am not now speaking of deposits.

Mr. VINSON. I am asking you if you in your definition of transaction call a deposit a transaction.

Mr. HUDSON. No, sir, it is not. It is not a transaction until it goes into the commodities market. If you deposit a thousand dollars in your bank today, that is not a transaction.

Mr. VINSON. What has that deposit figure that you read, 13 billions, to do with transactions?

Mr. HUDSON. I was quoting from Dow-Jones to show the velocity versus the volume of money. May I be permitted to quote?

Mr. VINSON. Go right ahead.

Mr. HUDSON (reading):

> New York: In October 1929, a deposit of $1 in a New York bank was being used fast enough to do $132.70 worth of work in a year. Last October the same dollar was being called upon to do annual work of only $22.50. Although total deposits were approximately the same in 2 months, bank funds today are simply lying idle.
>
> Net demand deposits in New York district member banks in October 1929, were working at the peak rate of over 818 billion dollars a year, but deposits in October this year, approximately the same total, were being called upon to do annual work of only slightly over $153,000,000,000. For the rest of the country, the figure has dropped to a little over $143,000,000,000 from something in excess of $347,000,000,000.

The CHAIRMAN. At this point the committee will take a recess until 2 o'clock.

(Whereupon at 11:45 a. m., a recess was taken until 2 p. m. of the same day, Monday, Feb. 4, 1935.)

AFTERNOON SESSION

(The recess having expired, the committee reconvened at 2 p. m., Hon. Robert L. Doughton (chairman) presiding.)

The CHAIRMAN. The committee will be in order. Dr. Townsend and Mr. Hudson will resume their testimony.

Mr. HILL. I want to ask Mr. Hudson a question or two on this 12 hundred billion dollar turnover that you spoke about. Just what is included in that? What do you mean by that?

Mr. HUDSON. That is all the business that is transacted in the United States in the period of a year.

Mr. HILL. That includes all bank transactions, bank clearances, and so forth?

Mr. HUDSON. Everything; all business.

Mr. HILL. How much of that is credited to bank clearances or bank transactions?

Mr. HUDSON. In the year 1929 there were $982,000,000,000. Mr. Hill, if you will pardon me, if I might be permitted to read this statement which will take only a couple of minutes——

Mr. HILL. Just after I finish this line of questions. I just want to get this information in the record in this connection. That would leave how much?

Mr. HUDSON. Over and above the bank transactions—approximately 20 percent.

Mr. HILL. It would leave practically 20 percent?

Mr. HUDSON. In addition to the bank debits, yes.

Mr. HILL. In figures, how much would it be? What would be the exact amount?

Mr. HUDSON. The exact amount would be $218,000,000,000 outside of bank transactions. That is taking the 20 percent figure.

Mr. HILL. Can you break down that $218,000,000,000 figure and tell us what is included in that?

Mr. HUDSON. I would be glad to if you would allow me to repeat the clearings, bank debits, as of 1929. It is not exactly $982,000,000,000. It is $982,531,000,000 of bank debits in the year of 1929 when your total business transactions amounted to 12 hundred billion dollars. That is approximately an amount over the bank debits of 20 percent. That is business that cleared through the banks; in other words, over the counter, we will call it. There are lots of transactions that are made that never reach the bank, so naturally the Federal Reserve bank cannot report upon those transactions. But Dow-Jones takes those into consideration.

Mr. HILL. How much of this is subject to this 2 percent tax?

Mr. HUDSON. The whole of it; all of your business that is transacted.

Mr. HILL. I understood Dr. Townsend to say that bank deposits and payments out of banks on checks, or any transactions outside of the payment of interest in the bank or by the bank were not subject to this tax.

Mr. HUDSON. A deposit is not subject to the tax, because the transaction has not transpired yet. As an illustration, you deposit today in your bank $1,000 and you write Mr. Jones a check tomorrow for groceries. There a transaction has transpired, on which the tax is levied.

Mr. HILL. What I am getting at is this: How much of the 12 hundred billion dollars comes within that class, that is not taxable under the provisions of this bill?

Mr. HUDSON. None of it.

Mr. HILL. The bank deposits and the bank clearance transactions all go into this total of 12 hundred billion dollars?

Mr. HUDSON. You understand that the bank debits and the bank credits are merely bookkeeping transactions. Money is deposited and is debited as it goes out. It is safe to assume that when money goes out there is a transaction transpired.

Mr. VINSON. Will the gentleman yield to me?

Mr. HILL. Yes.

Mr. VINSON. I should like to ask this question. Do you consider transactions between the bank in which the deposit is made and the correspondent bank within that total?

Mr. HUDSON. No; that is not counted in the bank balances.

Mr. VINSON. You do not count that as a transaction?

Mr. HUDSON. That is not a transaction; in fact, it is not a commodity transaction which this bill taxes.

Mr. VINSON. Your bill says, "transactions." What I wanted to know is whether or not that was included as a transaction.

Mr. HUDSON. It is not; no, in my judgment.

Mr. VINSON. That is a change in your debit column?

Mr. HUDSON. That is merely a bookkeeping transaction.

Mr. VINSON. I say, it is a change in your debit column?

Mr. HUDSON. Yes, sir.

Mr. VINSON. And I wondered if you included that as a transaction.

Mr. HUDSON. No more so than you would a deposit, in my judgment.

Mr. VINSON. You say that is not a part of the $982,000,000,000?

Mr. HUDSON. When your banks show debits of $982,000,000,000 that is merely evidence of the exchanges that are being made through the banks, the trading that has been done through the banks.

Mr. VINSON. I do not quite understand you, because in line 14, on page 2, of your bill, where provision is made for levying a 2-percent tax, it is levied on "the gross dollar value of each business, commercial, and/or financial transaction done within the United States."

Certainly, it seems to me that would be a financial transaction.

Mr. HUDSON. Are you asking me that question?

Mr. VINSON. Yes.

Mr. HUDSON. It says—

Two percent on the gross dollar value of each business, commercial, and/or financial transaction done within the United States.

Mr. VINSON. Well, you have got a dollar value there when you change your debit column because of the transaction between your correspondent bank and your local bank.

Mr. HUDSON. True you have, so far as your bank is concerned.

Mr. VINSON. If both banks are solvent, it is a dollar transaction.

Mr. HUDSON. There is no commodity transaction there.

Mr. VINSON. This does not say commodity transaction. This says "financial transaction."

Mr. HUDSON. There is no financial transaction.

Mr. VINSON. I cannot quite follow you on that.

Mr. HUDSON. Well, is there a financial transaction? Maybe I can explain it to you in this way. Let us assume I am a depositor and I deposit in your bank $1,000. Do you call that a financial transaction?

Mr. VINSON. I call it a financial transaction. It might not be such a financial transaction as you intend to include within your bill for taxing purposes, but certainly it is a financial transaction.

Mr. HUDSON. Oh, yes; I agree with you perfectly. But it is not a transaction, would not be considered a transaction under this bill, because if you did consider it as a transaction and taxed it, I would not deposit my $1,000 with you.

Mr. VINSON. Take your depositor. He deposits money in the bank. He is in some other city. He pays for certain commodities with a check. That check goes through a correspondent bank. That correspondent bank certainly has a financial transaction with the paying bank.

Mr. HUDSON. Yes; but with the depositor's money. You draw a check for the purchase price of whatever you purchase. That is the transaction.

Mr. VINSON. I know, but when this ehcck gets into the correspondent bank and before it clears, and when it does clear, you have a change in the debit column of your bank at home. I call that a financial transaction.

Mr. HUDSON. That is very true, but I do not think it would be the intent of this bill to charge that bank for the privilege of clearing that depositor's money. He has already paid the tax when he buys the suit of clothes of the tailor. That is the actual tranaction.

Mr. VINSON. But, when this man takes this same money and sells the man a suit of clothes and with that money pays his wholesaler, you have a 2-percent tax on that, do you not?

Mr. HUDSON. Exactly, because the wholesaler made a profit and the tailor made a profit, and they are the ones that pay the tax.

Mr. VINSON. I do not think the language you have in this bill refers to anything about profits. It does not say there must be a profit made upon the transaction. Certainly, it would include any "business, commercial and/or financial transaction" whether a profit is made or not. Certainly, you would not contend that it would be only those transactions where a profit were made.

Mr. HUDSON. No, sir; I do not want to be held responsible for this bill.

Mr. VINSON. Well, who is?

Mr. HUDSON. I think the bill could be changed and greatly benefited——

Mr. VINSON. Whom shall we hold responsible?

Mr. HUDSON. You gentlemen in the amending of it and correcting of it.

Mr. VINSON. Who drafted this bill? Do you know who prepared it?

Mr. HUDSON. I understand it was the joint action of a committee here in Washington. As to their names I could not identify them. I think some of the Congressmen likely participated in it.

Mr. VINSON. Likely?

Mr. HUDSON. I think some of the Congressmen did.

Mr. VINSON. You have not any information on that, have you?

Mr. HUDSON. No; I have not.

Mr. VINSON. In other words, you are just——

Mr. HUDSON. I am just assuming. As I understand, it was a committee.

Mr. VINSON. What kind of a committee; a congressional committee, a private committee?

Mr. HUDSON. Not a congressional committee; no.

Mr. VINSON. This is the Townsend old age revolving pension plan?

Mr. HUDSON. Yes.

Mr. VINSON. I wonder if Dr. Townsend could tell us who drafted the bill?

Dr. TOWNSEND. It was a committee that sent in here in rough draft this bill, from the Pacific coast. While here it was gone over carefully by a committee consisting of myself and two or three other men, besides a couple of congressmen.

Mr. VINSON. Is it your understanding that financial transactions include only those transactions in which a profit is made?

Dr. TOWNSEND. No; you could not exclude those transactions which had no profit in them, because there are many transactions which are made with the intent to make a profit, which entail no profit. But they will likely entail a shifting of ownership in the bank from one account to another. But that change of itself would not be considered a financial transaction.

Mr. VINSON. If a man gave a check upon his account in a bank, to another customer of the same bank, would that be a transaction?

Dr. TOWNSEND. Yes.

Mr. VINSON. Then why would you not have a financial transaction when you have a change of your debit or credit columns in the local and correspondent banks?

Dr. TOWNSEND. You are talking about bank clearances, no doubt. Bank clearances are not commercial transactions in the sense we have in mind, of course.

Mr. VINSON. But it is a financial transaction, is it not, Doctor?

Dr. TOWNSEND. I do not think so.

Mr. VINSON. As I understood Mr. Hudson, that was within the 12 hundred billion figure; that is, there were $981,000,000,000 of those transactions.

Dr. TOWNSEND. It would certainly not be a transaction coming under the taxing provisions of this bill.

Mr. VINSON. You do not mean to make it a financial transaction, even though the language here might indicate that it was?

Dr. TOWNSEND. Not a clearing-house transaction of a bank.

Mr. HILL. What I am trying to get at is this: How many of these bank transactions—what proportion of them—are financial transactions in this total of $1,200,000,000,000 of turn-over? What proportion of that is not taxable under the provisions of this bill?

Mr. HUDSON. I do not think there is any of them, because the bank transactions—well, there must be a transaction outside of the bank. In the bank there is only the debit and credit of the transaction taken care of.

Mr. HILL. Will you please define for the record—so that we can understand exactly what we are discussing here—what is a financial transaction within the terms of this bill?

Mr. HUDSON. Within the terms of the bill?

Mr. HILL. Yes.

Mr. HUDSON. Any exchange of money for commodities, trade, and so forth; the payment of a grocery bill is a transaction; the payment of a doctor's bill is a transaction; the payment of a legal fee is a transaction. But simply because a change takes place in the bank, simply because you keep money in the bank, does not mean that that amount of money must be taxed, just for the privilege of keeping it there. The transaction transpires when the money revolves through the bank and not before.

Mr. HILL. Suppose I have a deposit in a bank and I draw a check payable to cash.

Mr. HUDSON. Yes.

Mr. HILL. And take the money out.

Mr. HUDSON. Yes.

Mr. HILL. Is that a transaction?

Mr. HUDSON. No, sir; not under this bill. It does not become a transaction until you have spent the cash for whatever you intend to buy with it.

Mr. HILL. How else will the bank know what these transactions are? How do they make up the figures?

Mr. HUDSON. The bank is not interested in knowing. The individual who receives the cash, or who drew the cash for whatever you may spend, is the individual on which the tax will be levied—from whom it will be collected.

Mr. HILL. That would be a commercial transaction, where you pay cash for commodities. But you have language in here, "financial transactions." You see that in the bill?

Mr. HUDSON. Yes. It does not make any difference whether you pay by check or by cash for your commodities, it is still a transaction.

Mr. HILL. I am talking about the transaction where you get money out of the bank.

Mr. HUDSON. That is not a transaction. That is your money. You could not be charged with the tax for going to the bank or for going to your own safe in your home and taking out money. That is not a transaction.

Mr. HILL. What interpretation are you going to put on "financial transaction" in this bill?

Mr. HUDSON. When your bank transactions showed a clearance of $982,000,000,000 in 1929, as stated heretofore, the total transactions amounted to some 12 hundred billions, which indicated very clearly that there was a 20-percent counter transaction, just such as you have related there—cashing of checks, going down and paying your bills monthly with that cash. That is the increase over the $982,000,000,000. Whenever your bank debits are $982,000,000,000, you can rest assured that your total transactions will be the equivalent of that, plus 20 percent.

Mr. HILL. Where do you get that 20 percent?

Mr. HUDSON. I get it from the debits of the banks in 1929, plus the difference between that and the total volume of business transacted.

Mr. HILL. I still have not got clear in my mind what distinction is made between a business or commercial transaction and a financial transaction, all three of which are subject to tax under the provisions of this bill.

Mr. Hudson. I see no difference. In other words, what would you call a real-property transaction? Is that a financial transaction? All transactions are financial, are they not? It does not make any difference.

Mr. Hill. Of course, it depends on your definition, so far as the operation of your bill is concerned. I am trying to find out what is meant by the use of those terms, what is included within them? I would like to have you define them so that we can understand what they mean.

Mr. Hudson. My contention is that any and all transactions, regardless of whether they are financial or cash or check or what not, they are all transactions.

Mr. Hill. What kind of transactions go to make up this figure of 12 hundred billions?

Mr. Hudson. All business combined, that is done throughout the Nation in 1 year. It is a combination of all of them.

Mr. Hill. That includes bank clearances, does it not?

Mr. Hudson. Your bank clearances merely reflect the number of transactions. That is why you do not show all of the transactions.

Mr. Hill. You say that if a man draws a check for cash and then cashes that check, that is not a transaction?

Mr. Hudson. Not taxable.

Mr. Hill. But the clearances show that?

Mr. Hudson. You are not going to hide the money, unless you go home and hide it. That is the only way you can kill a transaction, is to go home and hide the money.

Mr. Hill. But so far as the banks are concerned, it is a transaction?

Mr. Hudson. They would show that. They would reflect that transaction; yes.

Mr. Hill. That is all.

The Chairman. Doctor is the Townsend Old Age Revolving Pensions, Ltd., an incorporated concern?

Dr. Townsend. Yes, sir.

The Chairman. What is its chief business? Where is its main office? What is the purpose of its incorporation?

Dr. Townsend. It is purely an eleemosynary corporation, a non-profit corporation, with headquarters at 200 Spring Arcade Building, Los Angeles, Calif.

The Chairman. How many officers have you?

Dr. Townsend. There are three in the Old Age Revolving Pensions; Mr. R. E. Clements, R. B. Townsend, and F. E. Townsend.

The Chairman. Are they salaried officers?

Dr. Townsend. No; none of them is salaried.

The Chairman. You do not draw any salaries at all?

Dr. Townsend. Mr. Clements and I have drawn our expense accounts merely.

The Chairman. From what source do you get the funds for your expense accounts?

Dr. Townsend. Through the sale of our literature.

The Chairman. It is a propaganda organization, then?

Dr. Townsend. Yes.

The Chairman. When did this thought first originate in your mind, if it did originate with you; and if not, where did you get the idea?

Dr. TOWNSEND. I have been an ardent advocate of a transactions tax as a means of raising the governmental revenues for many years, contending that it is utter folly for a government as rich as ours to borrow money for everything that they do. I have always been a very strong contender for the retirement of aged people as a just reward for services rendered over a period of forty-odd years.

The CHAIRMAN. When did you first give public expression to your views?

Dr. TOWNSEND. About November 1933.

The CHAIRMAN. Through what channel?

Dr. TOWNSEND. Simply by printing at my own expense the form of petition which we have circulated throughout the United States, a two-paragraph petition directed to the Congress of the United States, requesting the enactment of this old-age-pension law.

The CHAIRMAN. When was that done?

Dr. TOWNSEND. That was in November 1933.

The CHAIRMAN. Did you have a bill introduced at that time?

Dr. TOWNSEND. 1932 I should say, not 1933.

The CHAIRMAN. Was any bill proposed by any Member of Congress incorporating your ideas?

Dr. TOWNSEND. No.

The CHAIRMAN. Embodying your views?

Dr. TOWNSEND. No.

The CHAIRMAN. Why not?

Dr. TOWNSEND. We simply wanted to elicit the interest of the voting public in this plan of raising revenues and retiring the aged. So we circulated for many many months in different parts throughout the United States, acquiring millions of signatures of approval. Then, some months back, the discussion of the bill to be presented began, and it has been gone over through the minds of those interested for several months before it was embodied in this form.

The CHAIRMAN. Is there any propaganda being conducted now under your direction or through your knowledge?

Dr. TOWNSEND. Continuously.

The CHAIRMAN. For raising funds with which to finance the propaganda?

Dr. TOWNSEND. Nothing further than what we have been doing.

The CHAIRMAN. It was stated in the record the other day that appeals were sent out to make donations or contributions from a penny up, as much as could be given.

Dr. TOWNSEND. Yes. That was to support our agents in the field, our organizers in the field.

The CHAIRMAN. How many agents have you in the field?

Dr. TOWNSEND. We have had 6; we had 7 at one time.

The CHAIRMAN. Are they salaried?

Dr. TOWNSEND. Yes.

The CHAIRMAN. I though awhile ago you said there were only two or three men on a salary.

Dr. TOWNSEND. Those men are not connected with our office.

The CHAIRMAN. Let us get the questions of salary straight. We want to find out what organization you have, and the salaries paid. I understood from your statement a few moments ago that there were not more than one or two drawing salaries, who were connected with your organization. Let us get the entire salaried force, how many

people have you employed either on a salary or commission, and what salary and what commission do they receive and on what is the commission based.

Dr. Townsend. Mr. R. E. Clements is vice president and secretary, and he has all of that data.

The Chairman. You ought to know. You are the head of the organization, and you should have such data before you. You have an organization that is apparently spread all over the United States, and you are here as its chief proponent.

You ought to be able to answer that question yourself. You ought to know what the facts are and I am calling on you for the information.

Dr. Townsend. All right, we have. I do not know whether it is four or five men that we have in the field at the present time.

The Chairman. You say you do not know how many you have?

Dr. Townsend. We had to recall several, because we had not sufficient money to keep them in the field. They have been recalled recently.

The Chairman. Do you know the salary which each employee in the field receives?

Dr. Townsend. Some of them were receiving $50 per week and their expenses.

The Chairman. Those who work on commission, what commission do they receive?

Dr. Townsend. There is no commission.

The Chairman. Did I misunderstand you when I got the impression that you said there were some who worked on salaries and some who worked on a commission basis? Did I misunderstand what you said?

Dr. Townsend. Yes; you misunderstood me.

The Chairman. You say none are working on commission?

Dr. Townsend. None are working on commission.

The Chairman. We should like to have the names of all the people who are working for you, who are distributing this propaganda, who draw salaries, or who get compensation of any kind.

Dr. Townsend. Certainly, and I shall be glad to call on my secretary to give you that information. That is not in my province to take care of that.

The Chairman. Is the gentleman present who has that information?

Dr. Townsend. Yes, Mr. Clements.

The Chairman. We will be glad to have him give us this information.

STATEMENT OF R. E. CLEMENTS, LOS ANGELES, CALIF.

The Chairman. Mr. Clements, you heard the question. Will you answer it?

Mr. Clements. We have a considerable salaried ogranization in the form of clerks, stenographers, bookkeepers, auditors, and so forth, in out headquarters office in Los Angeles. It would be quite impossible for me to give you the salaries of each of those individuals.

The Chairman. Can you procure that information to put into the record?

Mr. Clements. Yes, sir.

The CHAIRMAN. What salary do you get?

Mr. CLEMENTS. I get $50 a week.

The CHAIRMAN. And expenses?

Mr. CLEMENTS. Expenses when I am on the road.

The CHAIRMAN. How much of the time are you on the road?

Mr. CLEMENTS. Probably one-tenth of the time.

The CHAIRMAN. Where are your main headquarters?

Mr. CLEMENTS. Los Angeles.

The CHAIRMAN. When did you first become connected with this organization?

Mr. CLEMENTS. About the 1st of December 1933.

The CHAIRMAN. I believe it was testified today that each of these parties that would receive a pension of $200 a month was to have that money deposited in a bank for him, in the bank where the pensioner did business; and then on the 1st of each month that money would be deposited to his credit, and then the bank would draw upon the Treasury of the United States, or the insurance deposit corporation, for what was needed. Tell us how that is provided for.

Dr. TOWNSEND. We expect that each pensioner will be given credit by the National Government in a form which will make it impossible for him to go to any bank in the Federal Reserve System, or one that is connected with the System, and secure the amount of money due him.

The CHAIRMAN. In what way do you expect to authorize him to get this credit?

Dr. TOWNSEND. It is not absolutely necessary for me to say what the authorization shall be, or what the form of the authorization shall be.

The CHAIRMAN. You say that he can go to any bank. He certainly would have to have some means of identification.

Dr. TOWNSEND. Yes; he should have some means of identifying himself, and that may vary. The requirements for that identity may change from time to time.

The CHAIRMAN. Or would he be just given blanket authorization that would be directed to any bank that they are hereby authorized to pay the bearer of a certain instrument, or to place to his credit in the bank the sum of $200?

Dr. TOWNSEND. Yes, sir.

The CHAIRMAN. What would prevent him from going to as many banks as he pleased? How would the bank know whether he had the right to call upon that particular bank for his money?

Dr. TOWNSEND. Could you not conceive of a system——

The CHAIRMAN. I am not on the witness stand, and I am asking you.

Dr. TOWNSEND. There are many ways in which that could be done.

The CHAIRMAN. Give us the most practicable way.

Dr. TOWNSEND. The most practical way would be by means of a photograph attached to some sort of a card, which would give this gentleman's number, and all the data concerning him necessary.

The CHAIRMAN. How would bank B know, for instance, know that he has not been to bank A, and how would bank C know that he has not been to both banks A and B, and received money from them?

Dr. TOWNSEND. If a man chooses to go from one place to another, he would have to give——

The CHAIRMAN. I understand that this is a moving business; in other words, you presuppose that he is going to move. You do not confine the number of banks on which he may draw to one. This says any bank in the United States, as I understand it, that he can go to and present his authorization and receive his money.

Dr. TOWNSEND. You might want to cash your check one month in one place and another month in another place. We do not propose to tie anyone down to any immediate neighborhood.

The CHAIRMAN. You would have the pension paid on presentation of his photograph on the order at any bank to which he goes. Suppose that the amounts paid out by these banks exceed by a considerable sum the amount taken into the Treasury from the tax levied under this system of raising the money, how would you make up your deficit? How are you going to know whether you have money enough in your Treasury to pay the orders for pensions? How do you know that you are going to be able to meet all the demands that are made on the banks? In other words, the bank is required to pay this money. You are not going to allow the banks to pay overdrafts. That would be contrary to our law. Banks under the law are not permitted to pay overdrafts. Suppose these orders are all issued, but before they are paid, the funds in the Treasury are exhausted. Where will you get the difference to pay them? I do not think that there is half enough provided in this bill to take care of the amount authorized. Where would these banks get this money when the Treasury Department says there is not a sufficient amount to take care of these orders? How do you provide for that?

Dr. TOWNSEND. The way in which it could be done would be by a system of trial and error, such as the Government has been undergoing for the last year or two.

The CHAIRMAN. You think that the people of the country would support a banking system as loose as that? Do you think that banks would be justified in doing business on that basis? Banks should have just as much consideration of their depositors as they have of any one else. Suppose I, as a depositor in a bank, could draw a check for whatever amount I pleased and say that I would put the money in the bank later, or sufficient money to take care of the overdraft. What kind of a banking system would that be?

Dr. TOWNSEND. Suppose we collect the tax——

The CHAIRMAN. Suppose the tax is not sufficient to pay these orders. I have no doubt it will not be half sufficient. Why should not the deposits be made before payments are made? You propose to pay the orders without knowing whether the tax levied will cover the amount necessary to be paid. Is not that a loose system of doing business?

Dr. TOWNSEND. It is not going to be necessary, because we know by the transactions of the country that with this money in circulation the number of transactions is going to be prodigiously increased.

The CHAIRMAN. I am not talking about that. Suppose they are prodigiously increased. I suppose they will be. There is not any question that they will be prodigiously increased until the whole machinery breaks down, which will probably be immediately. But until that happens, what assurances have we that there will be sufficient tax collections to take care of these obligations? Have you any

assurance of that, or is this just guesswork of the wildest and most rambling sort?

Dr. TOWNSEND. Have we not plenty of assurances in the fact that sufficient money has been expended in the past so that a 2-percent tax upon that expenditure will produce, we will say, $20,000,000,000?

The CHAIRMAN. You have presented no such data as that, sufficient to convince me of that.

Dr. TOWNSEND. Then you are hard to convince.

The CHAIRMAN. In the first place, I would like to know, how do you get your figures as to the exact amount of the financial transactions in the United States? Has there ever been any accurate record of that compiled? That is guesswork?

Dr. TOWNSEND. This is not guesswork.

The CHAIRMAN. Is there a record of every dollar's worth of cattle and wheat and corn and cotton and groceries and drugs and doctors' bills and lawyers' fees and clerks' salaries, and everything of that kind? Is there any record of that anywhere in the world?

Dr. TOWNSEND. No; but we have a record of transactions that would provide an ample amount, without all that.

The CHAIRMAN. Where are the figures on which you make up your total?

Dr. TOWNSEND. We have just been quoting them to you.

The CHAIRMAN. What authority have you for the figures you have given? You have given us nothing but guesswork. There is no record made of all these transactions anywhere. If there is, I would like to know what that record is.

Dr. TOWNSEND. Let Mr. Hudson read the figures.

The CHAIRMAN. Let him read them. But let us know where he got them. Let us see whose figures they are. What we want are detailed figures. I do not want merely a total figure. I want the detailed figures that make up that total. We will be glad to hear those figures. That is information that I would be delighted to have. If there is a record of those figures anywhere in the world, I would like to know where it is.

Mr. HUDSON. May I read this statement?

The CHAIRMAN. If that is the only way by which you can give us the information, you may read the statement.

Mr. HUDSON. Thank you.

The CHAIRMAN. Surely, you could not have all of those figures on that one slip of paper?

Mr. HUDSON. I have sufficient here, and if you care to have more then I will take the time to give you more.

The CHAIRMAN. Give us the figures, and the source of the figures.

Mr. HUDSON. If these are not sufficient I will get more. That is fair enough, is it not [reading]:

House Resolution No. 3977, known as the "McGroarty bill", provides for an annuity of $200 per month to all citizens of the United States who have reached 60 years of age or over, and who apply therefor and can qualify under section 2 of the bill.

Permanent recovery is the prime purpose of the plan and facts and conslusions are hereinafter presented in support of the plan under the following related subdivisions.

Mr. DISNEY. May I ask a question there? This goes to the philosophy of the bill. As I understand it, the bill is based on two premises.

One to take care of the aged people, and the other, as you just now said, to enhance or enlarge the business of the country.

Mr. HUDSON. That is the prime object of the bill.

Mr. DISNEY. If that is the prime object of the bill, why not reduce the age limit to the age of discretion or the age of majority, and enhance business to a much greater extent?

Mr. HUDSON. Because that is not necessary. The number of aged people today in the United States is approximately the same as the total of your unemployed. It would be only folly to do what you suggest, because there is a time coming when you will be called upon to reduce the age, after you gentlemen have approved this bill. [Continuing reading:]

1. Unemployment.
2. New purchasing power and revenue.

The CHAIRMAN. That is not what I am asking for.

Mr. HUDSON. Well, I am getting down to it.

The CHAIRMAN. Well, start from that point instead of getting down to it. That is not relevant at all to the inquiry that I made.

Mr. HUDSON. It is pretty hard to start in the middle of a paragraph and get any sense out of it, Mr. Chairman.

The CHAIRMAN. You are reading some paragraph on some other matter I did not ask you about. We are asking you for detailed information as to these figures. We want to know the source of these figures of financial transactions in the United States.

Mr. HUDSON. Then from here [indicating statement] it should be read, with your permission.

The CHAIRMAN. Proceed.

Mr. HUDSON. It is understood now that the aged, answering this question——

The CHAIRMAN. Understood by whom?

Mr. HUDSON. It is understood by every one.

The CHAIRMAN. That is just another leap in the dark.

Mr. HUDSON. It is understood that we are dealing with the problem of 10,000,000 aged. You have got the same number, or approximately the same number, of unemployed, 10,000,000, or slightly over.

The CHAIRMAN. Perhaps.

Mr. HUDSON (reading):

Assuming that only 3,000,000 aged now employed retire on pension, there will be created 3,000,000 jobs by filling these vacancies.

By eliminating aliens, disqualifying criminals, and taking account of those who are financially independent, or who do not wish to retire, we estimate the number who can and will qualify for the pension will be 7½ million.

The distribution of $200 per month to these 7½ millions of citizens who can qualify and who are, in proportion to the population, equally distributed throughout the entire country, will create such a demand for goods and commodities as to result in the necessity of employing 7½ millions who are now unemployed; thereby, employment will be given to 10½ million younger workers.

The CHAIRMAN. You have not gotten any closer to the question. You are not anywhere within gunshot of it.

Mr. HUDSON. As I have told you, I cannot start in the middle of a sentence, and if I am permitted to read this document——

The CHAIRMAN. What you have read throws no light on the question.

Mr. HUDSON. Well, it leads up to it.

The CHAIRMAN. Why do you not start at the point where it has to do with the question.

Mr. HUDSON. Because I cannot start in the middle of a sentence and make it read like sense.

The CHAIRMAN. You have already read several sentences and you have not started to touch the question yet.

Mr. DISNEY. Mr. Chairman, may I ask one other question at this point? If the prime object is to relieve unemployment and set business in motion, why not simply pension the unemployed and take care of the aged by some other way?

Mr. HUDSON. My dear sir, that is just what you have been doing, pensioning the unemployed, and putting that upon the backs of the taxpayers.

Mr. DISNEY. Is not that the theory of this bill, that you expect to pay $200 a month in order to correct the unemployment situation; to relieve the unemployed?

Mr. HUDSON. We expect to remove the aged, who are the proper ones to be removed, from the employed field. It is not going to cost us anything to do it. It is simply the purchase price of an annuity that we all have a right today to purchase.

The CHAIRMAN. Returning to the question I asked you, the basis of your statement of the total amount of business done in this country. What is the source of those figures? From what are they compiled?

Mr. HUDSON. There is no living man today that can certify that there is such and such a total of transactions, without missing it by billions.

The CHAIRMAN. What about the amount of the transactions?

Mr. HUDSON. Nor the amount of them, other than through bank debits and your great statisticians who are supposed to be somewhere near correct in their estimates, do it that way.

Mr. VINSON. You stated in 1929 that there were $1,200,000,000 in transactions.

Mr. HUDSON. No, no.

Mr. VINSON. Bank debits of $982,000,000,000. In 1931 you stated that the sum total of the transactions was reduced to $600,000,000,000. Is that correct?

Mr. HUDSON. That is correct, according to Mr. Goldenweiser.

Mr. VINSON. Can you give us the total bank debits for 1933?

Mr. HUDSON. Yes, sir.

Mr. VINSON. What is that?

Mr. HUDSON. Three hundred and three billions plus some millions.

Mr. VINSON. Three hundred and three billions?

Mr. HUDSON. Three hundred and three billions.

Mr. VINSON. Two percent of that would be what sum?

Mr. HUDSON. That would be 6 billion.

Mr. VINSON. Six billion. If it understood Dr. Townsend correctly this morning, it would take nearly 20 billions of dollars.

Mr. HUDSON. It takes 18 billions.

Mr. VINSON. I thought it was 19½.

Mr. HUDSON. No; 18 billions. That would be the maximum.

Mr. VINSON. Maybe a dollar over or a dollar under 18 billion, and it is 303 billion. What is the treatment of the debit that represents services?

Mr. HUDSON. I did not quite follow you on that.

Mr. VINSON. I wanted to know that, in this debit, to be exact.

Mr. HUDSON. You are speaking of the 303 billion?

Mr. VINSON. Three hundred and four billion seven hundred and sixty nine million in regard to 141 principal cities.

Mr. HUDSON. Yes.

Mr. VINSON. So that we may have it accurately.

Mr. HUDSON. Yes.

Mr. VINSON. It is a little more than your 303 billion, because when you take all the banks, bank debits in 1933 are estimated to be 442 billions. That is a little more than your figure. But in that 442 billions sum total bank debits, you have during the period of the year running through those bank debits the reasonable estimate of $40,000,000,000 in salaries for personal services. Do you think that 40 billion would be a reasonable deduction from 442 billions?

Mr. HUDSON. You are now speaking of salaries, amounting to 40 billion?

Mr. VINSON. Yes; in your bank debits.

Mr. HUDSON. I did not add the salaries to the 303 billions.

Mr. VINSON. Of course, your 303 billions were the figures for the banks of 141 principal cities.

Mr. HUDSON. Yes.

Mr. VINSON. I want to be fair with you in regard to that. It did not include the banks throughout the country?

Mr. HUDSON. It did not.

Mr. VINSON. If you take $400,000,000,000 as the total bank debits subject to this 2-percent tax and you added 2 percent tax on every transaction that was hooked up with these bank debits, you would realize but $8,000,000,000 would you not?

Mr. HUDSON. Yes; that is correct.

Mr. VINSON. Referring to line 3 on page 2 of the McGroarty bill, what do you understand the language "gainful competitive pursuits" to mean? You say that in order for the pensioner to get the $200 a month, he must (a) discontinue and refrain from all gainful competitive pursuits or salaried positions of any kind.

Mr. HUDSON. I take it to mean this, that he will cease operation for income, such as salaries, and so forth.

Mr. VINSON. He would have to relinquish his connection with anything that would mean income to him? Is that correct?

Mr. HUDSON. Unless it was some income from some piece of property or bond that he had derived or accumulated prior to the pension. You cannot take income derived from a bond. If a man has a thousand dollars worth of Liberty bonds, as an illustration, he still can qualify for the pension. But you cannot take the interest from him, because that is something he has already accumulated in the previous years.

Mr. VINSON. This says he shall discontinue and refrain from all gainful competitive pursuits.

Mr. HUDSON. Yes.

Mr. VINSON. Do I understand you to mean that if a man had a thousand-dollar Liberty bond and he was getting, say 3½ percent, $35 a year from it, that as long as he kept that Liberty bond and got $35 a year he would not be able to get the $2,400 a year under this plan?

Mr. HUDSON. You most assuredly do not. Quite the reverse. I said by applying and acquiring the pension, it does not necessarily mean that he must surrender anything he has accumulated in the past.

Mr. Vinson. Then if he has the Liberty bond and is cutting the coupons, whether it is $35 a year or $3,500 a year, would he still be entitled to the $200-a-month pension?

Mr. Hudson. Exactly.

Mr. Vinson. Then if a man had an income of $50,000 a year——

Mr. Hudson. We do not care if it is Henry Ford.

Mr. Vinson. Yes, Henry Ford; in the clipping of coupons, he would still be entitled to the $200-a-month pension?

Mr. Hudson. Yes, sir.

The Chairman. You figure out that a 2-percent tax will raise the amount of money necessary by basing it on the amount of business transactions conducted in the country, and yet when I ask you for the figures indicating the business transactions of the country you answer that there is no such record and it is only a guess.

Mr. Hudson. No; you misunderstood me. I did not say it was a guess. I said there was no statistical data kept as to every transaction.

The Chairman. If there is not, then it must be a guess.

Mr. Hudson. No; it cannot be. Your Federal Reserve bank certifies what the deposits and debit column showed in a certain year, and I take it that that is pretty correct.

The Chairman. If you say it is 5,000 miles or 3,000 miles or 4,000 miles from here to San Francisco, and I ask you how you know, if it has ever been measured, and you say it has not, then am I not justified in saying it is an estimate? Or a guess? You say no one has ever measured it.

Mr. Hudson. Yes; but it has been measured.

The Chairman. You say it has not, it has never been kept.

Mr. Hudson. I said the total transactions.

The Chairman. If you have the individual transactions they can be totaled, but who has kept the individual transactions?

Mr. Hudson. No one. But I contend this, that there is on one that can dispute the fact that any time that your national income, that is, the net results of your national income, amounts to 80 billions of dollars and up, your total transactions are never under 1,200 billion dollars.

The Chairman. That is just a guess, that is all.

Mr. Hudson. Oh, no; it is not a guess.

The Chairman. It is nothing but a guess. You have no record, have you? That is an opinion, that is all it is.

Mr. Hudson. Do you then contend that the Federal Reserve bank down here is guessing?

The Chairman. No; I am not contending that. The estimate is the best estimate they can make.

Mr. Hudson. Do you contend that Mr. Goldenweiser is guessing?

The Chairman. They estimate on total volume of business. But when you come to the individual transactions that you mention on which this is based, you admit that there is no record.

Mr. Hudson. Your total volume.

The Chairman. That is an estimate.

Mr. Hudson. Dow-Jones do not estimate. They do not make estimates.

The Chairman. You said so far as you knew there was no record.

Mr. Hudson. I think their estimate is very conservative.

The CHAIRMAN. I am asking for information and I am not getting it.

Mr. VINSON. In these bank debits, of course, you have many transactions involving the payment of debts. In that sort of transaction is it your privilege under your definition here to tax that transaction?

Mr. HUDSON. Most assuredly, if it is a debt-acquiring property. In other words, if I run a grocery bill and I write my groceryman a check for $40 for the bill, he certainly had his profit and could pay a tax. That is a debt that is paid through the bank.

Mr. VINSON. As I understood you, the payment of debts accumulated in the past, present debts, or debts that would be accumulated in the future, would bear a 2-percent tax.

Mr. HUDSON. I would not go so far as to say that. Debts that have been accumulated in the past——

Mr. VINSON. Is that a financial transaction?

Mr. HUDSON. In your term, yes; it would be.

Mr. VINSON. I am not speaking of my term, I am talking about the term in the bill.

Mr. HUDSON. I do not think that if I have a mortgage on my home now, after the passage of the bill I should be taxed for the privilege of paying the mortgage.

Mr. VINSON. You think you should be?

Mr. HUDSON. I should not.

Dr. TOWNSEND. Ex post facto.

Mr. VINSON. Is there any exclusion of that sort of payment in this bill any place?

Mr. HUDSON. No; I see none.

Mr. VINSON. But you think there should be?

Mr. HUDSON. I think so; yes.

Mr. VINSON. When you take then your exclusion of debts from your bank debits, do you not pull down your sum total very, very materially?

Mr. HUDSON. No, no. You would not since the year 1929, because nobody has been able to pay his debts.

Mr. VINSON. I know, but the debts are still there. That is what I am speaking of.

Mr. HUDSON. Yes; that is true.

Mr. VINSON. The payment of those debts is what I am speaking of now; your debts are in the debit column?

Mr. HUDSON. Yes.

Mr. VINSON. In the payment of those debts, if they are excluded from the sum total of your bank debits, that would materially reduce the total of bank debits, which is the basis of your 2 percent tax?

Mr. HUDSON. It would not reduce your transactions one bit, because of the fact if I am in business and I have a mortgage on my farm or home of $1,000, I am accumulating that $1,000 through my trade channels, my business, am I not? And I come over to you as the mortgage holder and I say, "Here is your $1,000." Have I not already paid the tax through the accumulation of the $1,000?

Mr. VINSON. You may have done that, but I did not see anything in here to keep you from pyramiding that tax. That is one of the questions that has been rising in my mind, the question of pyramiding that tax.

Mr. HUDSON. There is no way of pyramiding this tax. If it were possible to pyramid this tax, it would not amount to anything.

I want to make this explanation: The bill is there and it is in the House. But as I said before, the bill does not meet with my approval. I would say very frankly that it does not. Naturally, your body of men have the power to correct any bill.

Mr. VINSON. It is rather loosely drawn, is it not?

Mr. HUDSON. I would say so, yes; very loosely.

The CHAIRMAN. Dr. Townsend, I believe you just called in your friend to answer these questions with regard to statistics.

I notice on page 2 of this bill, subdivision (b)—

the pensioner shall covenant that he or she will within 30 days of receipt of said pension expend all of the same for goods, commodities, or services within the jurisdiction of the United States.

There is nothing said there about the nature of services or what may be paid for services, is there?

Dr. TOWNSEND. No.

The CHAIRMAN. Does it make any difference?

Dr. TOWNSEND. Not necessarily. They might hire individuals for the petty work, which some of these pensioners would necessarily need.

The CHAIRMAN. Take this case, for instance. Suppose a man and his wife are beneficiaries under this bill, or this law, if it is enacted. They have a son and a daughter. The old man says to his son, "You bring in my fuel and do my shopping, and I will pay you $5 a day for doing that." That is for services. It does not say anything about the nature of the services or the price that may be paid.

The old lady says to the daughter, "You keep my house and make up my bed, and I will pay you $5 a day." There is nothing said about the nature of the services or the price of the services in the bill. Would that come within the provisions of this law if this bill becomes law?

Dr. TOWNSEND. What of it?

The CHAIRMAN. They can take that money and put it in the bank or spend it. There is no direction as to what they shall do with it. Could the pension not be manipulated in that way so that it would not go out to increase the volume of business, nor give employment, nor stimulate trade?

Dr. TOWNSEND. It can be subject to abuses, the same as any other law, of course. However, provision is made in this bill for a committee of three pensioners in every voting district to see that the intent of the bill is carried out.

The CHAIRMAN. How many clerks, employees, and officials do you think it would take to follow up all the transactions in the United States, and see that they are all reported, and an accurate count kept and the tax fully paid, the law honestly administered, and the funds correctly or properly applied?

Dr. TOWNSEND. It would not take any more than we have at the present time. It would not make any difference if there were an increase. Right here in Washington you see an evidence of the benefit of an increase in employees. This is the only spot in the United States that is enjoying ordinary properity at the present time. Why? Because of the vast increase in the employed of this community.

Now, let us employ without stint. That is what we want. We want the people employed.

The CHAIRMAN. But we have to collect this tax before we can employ them.

Dr. TOWNSEND. Yes, if we have to have additional employees.

The CHAIRMAN. How many officials would it take to administer this law and collect this tax, following up every transaction between any two people? It takes two people or more to complete a transaction. A man cannot trade with himself.

Dr. TOWNSEND. You are not going to have any increase over what we have at the present time. We have plenty of facilities at the present moment for collecting this tax.

The CHAIRMAN. What are those facilities?

Dr. TOWNSEND. You can do it through the banks.

The CHAIRMAN. If John Smith sold a hog out here to Jim Jones and took a dog in exchange for it, the bank would not know of that. Suppose John Jones and Jim Smith swapped hogs, or the transaction involved a hog and a dog or a hog and a sheep, and the transaction involved $4. Which would pay the tax?

Dr. TOWNSEND. Both, probably.

The CHAIMAN. Both, probably; though it was one transaction?

Dr. TOWNSEND. Yes.

The CHAIRMAN. Who would follow that up? There are transactions similar to that going on in grocery stores, drug stores, barber shops, on farms and everywhere. They are not all required to pay taxes. There is no system of taxes for every transaction in the United States.

Dr. TOWNSEND. We have a sales tax in the State of California. They have it everywhere. If you register these people and license them, have everybody take out a license, they have to obey the law.

The CHAIRMAN. I am just asking you what in your opinion will be the cost of administering this law if this bill is enacted into law.

Dr. TOWNSEND. I say, we are not interested the least in the cost of it.

The CHAIRMAN. I am sure of that.

Dr. TOWNSEND. The cost will simply be a transfer.

The CHAIRMAN. I am sure that is right.

Dr. TOWNSEND. We will simply increase the flow of money.

The CHAIRMAN. There is no question about waste or extravagance or loss, just so we get the money? You confess you are not interested in the expense. Of course, that is an admission I am glad to have.

Mr. LEWIS. Dr. Townsend, I am reading from the bill, section 2:

> That every citizen of the United States, 60 years of age and over, or who shall attain the age of 60 years after the passage of this act, while actually residing in the United States, shall be entitled to receive, upon application and qualification, a pension in the sum of $200 per month.

Application to whom?

Dr. TOWNSEND. Application to the United States Government, to the pension department of the United States Government.

Mr. LEWIS. Application to whom? If I wanted this pension, to whom would I apply?

Dr. TOWNSEND. To the pension department of the United States Government.

Mr. Lewis. The bill does not provide that.

Now, coming down to section 5:

Immediately after the passage of this act, the Secretary of the Treasury shall authorize all National and State banks, members of the Federal Insurance Deposit Corporation, to credit each properly identified pensioner the first day of each calendar month the sum of $200, and said banks shall be reimbursed by the United States Treasury for the amounts so credited to the pensioner or pensioners.

You expect these applications to be made to the banks?

Dr. Townsend. Yes.

Mr. Lewis. The section itself, however, provides that the Secretary of the Treasury shall authorize the bank to enter to the credit of the pensioner this $200 on the 1st of each month. Do you wish us to believe that the banks of the country, merely being authorized to do so, would enter $200 to the credit of every person who might apply for this pension?

Dr. Townsend. Why, anybody would understand, of course, that the credit would be placed to the banks by the Treasury of the United States, by an act of Congress.

Mr. Lewis. What your bill says is, "Shall authorize the national and State banks to credit." It does not command them to credit, even if Congress should have the power to command them to credit.

Mr. Cooper. Mr. Chairman, there is a roll call in the House. Of course, members of the committee are supposed to respond to that call. I move that we recess for 1 hour and come back at 4 o'clock.

The Chairman. Without objection, we will recess until 4 o'clock. Doctor, will you please return at 4 o'clock with your staff?

(Whereupon, at 3:10 p. m., a recess was taken until 4 p. m. of the same day.)

AFTER RECESS

The Chairman. The committee will be in order.

Doctor, if you do not have the data available and convenient, will you please furnish for the record an itemized statement of all the collections your organization has made, the sources, and also a detailed or itemized statement of the disbursements, up to this time, with a list of the officials, the titles of the officials as well as all employees and their salaries?

Dr. Townsend. Mr. Chairman, I can give you the latest audit, and we can compile the names of the employees and their salaries in a very short time. It would not be available at the present moment.

The Chairman. Have you in mind now approximately the total amount of collections up to date?

Dr. Townsend. Yes; I can quote from the last audit.

The Chairman. About how much would you say? Of course, this is different and apart from the itemized statement we are asking for.

Dr. Townsend. It is approximately $40,000, possibly a trifle over. It is under $50,000.

The Chairman. Is it a fact, Doctor, or is it not—I have seen it reported somewhere, I think in the press—that there has been some dissension in your organization and some of your directors or employees have resigned, for the reason that they had requested in view of the large amount collected there be an outside audit of the books, that was refused, and as a consequence some of the directors resigned. Is there anything to that charge?

Dr. Townsend. There is nothing to that charge whatsoever. They did not resign because of a lack of confidence in our audit. We had a certified accountant make that audit.

The Chairman. That is, within your own ranks?

Dr. Townsend. No; from outside.

The Chairman. An independent outside accountant?

Dr. Townsend. From outside the ranks entirely. We welcome a similar audit from anyone else. We did not deem it incumbent upon us to furnish two audits. We offer anyone the opportunity to make an audit if they wish to bring an auditor in and do it at their own expense.

The Chairman. Your books are open for legitimate inspection?

Dr. Townsend. At all times. They have been from the start.

May I make a request? I would like to have read into the record of this examination the prepared financial and statistical statement which Mr. Hudson has thus far attempted to present.

The Chairman. You have the privilege of having it inserted in the record.

Mr. Duncan. Doctor, in order that we may have a practical application of the theory of tax collection, I want to ask you this: Suppose I am a farmer. I sell 400 bushels of wheat for $1 a bushel. Upon that $400 there would be a 2 percent tax. It is true, is it not?

Dr. Townsend. Yes.

Mr. Duncan. A tax of $8. If the buyer of that sells it to the miller for, say, $425, there would be an additional tax of $8.50. The miller or processor processes it and sells it for $600. That would be a $12 tax. He in turn sells it to the consumer for a third more, or $800. Then there would be $16 tax, so that between the time it was sold by the producer and the time it reached the ultimate consumer there would be a tax of $44.50 on that original transaction of $400. That is true, is it?

Dr. Townsend. No; you miss the gist of it entirely. Mr. Hudson, answer that question for him. The gentleman has missed the point entirely.

Mr. Duncan. I would like to have an explanation of that.

Mr. Hudson. Would you mind stating the number of bushels at a thousand in order that we might have round figures?

Mr. Duncan. I am just taking the amounts here, Mr. Hudson.

Mr. Hudson. Well, I have the amounts here.

Mr. Duncan. Let me restate my question: If I as a farmer sold $400 worth of wheat there would be a tax of 2 percent on that?

Mr. Hudson. Yes, sir.

Mr. Duncan. That would be $8. The producer of that wheat sells it to the miller for $425; there would be an additional 2-percent tax on that transaction; that is true?

Mr. Hudson. That is correct.

Mr. Duncan. That would be $8.50. The miller or processor grinds the wheat and sells it to the retailer, we will say, for $600.

Mr. Hudson. That is $12.

Mr. Duncan. Now, the retailer sells it to the consumer for $800. That would be 2 percent more, or $16.

Mr. Hudson. I did not quite get that last transaction.

Mr. Duncan. I say the retailer who paid $600 for it to the miller sells it to the people who consume it for $800.

Mr. HUDSON. That is $16.
Mr. DUNCAN. That is $16. So that would be——
Mr. HUDSON. $44.40.
Mr. DUNCAN. $44.50.
Mr. HUDSON. $44.40, I have. We will not quarrel over that dime.
Mr. DUNCAN. That is true. So that there would be possibly a 9-percent increase between the purchase price and the ultimate sale price to the consumer, would there not?
Mr. HUDSON. There would be a total tax of 2 percent on the total sale price of $2,225.
Mr. DUNCAN. But there would be 9 percent above the original cost.
Mr. HUDSON. No; I do not agree there. Granting that you are correct—which I am not admitting that you are at all—the total tax is $44, is it not? $400 worth of wheat is 400 bushels, is it not?
Mr. DUNCAN. I am not figuring on bushels. I am figuring in amounts.
Mr. HUDSON. Suppose we take today's price.
Mr. DUNCAN. All right.
Mr. HUDSON. When the wheat is ground into flour, then you must spread that tax over a certain number of sacks of flour, must you not? Furthermore, if I buy your wheat for a dollar a bushel, and you are the raiser, I walk to your neighbor there who is a speculator, and I say, "I just bought so-and-so's wheat. I want $1.10 for it." And he pays me the $1.10. He goes to his neighbor, who is a larger speculator, and he says, "I will give you $1.20." He goes to the elevator here and he says, "I want $1.25 for the wheat." Each of the four have made a transaction, and they each made a profit, did they not?
Mr. DUNCAN. My theory here of the amount is correct. It is the amount of money.
Mr. HUDSON. The amount of tax.
Mr. DUNCAN. The amount of tax.
Mr. HUDSON. The amount of tax, yes, is $44 on $2,225 worth of merchandise, the transaction.
Mr. DUNCAN. Suppose under your theory I buy a 10-cent cigar. That would be 2 percent additional on that transaction?
Mr. HUDSON. On a 10-cent purchase?
Mr. DUNCAN. Yes.
Mr. HUDSON. Why, I do not see how you could possibly pay 2 percent on a 10-cent cigar. That is 2 percent on a dollar. If you bought a dollar's worth of cigars, naturally there would be a 2 percent transaction tax.
Mr. DUNCAN. If I bought a 10-cent cigar and paid 10 cents for it, I would not be charged any tax, would I?
Mr. HUDSON. We are not attempting to charge the individual at all, the consumer, but we charge that cigar store, when he sold 10 of you a 10-cent cigar, 2 cents.
Mr. DUNCAN. Two cents. In the States that have sales taxes, suppose the sales tax is 2 percent. If you go in to a merchant today and buy 25 cents' worth, you still pay that 2 percent, do you not, on the 25 cents?
Mr. HUDSON. You pay 1 cent.
Mr. DUNCAN. That depends somewhat on the merchandise?

Mr. Hudson. Well; no. The merchandise has no bearing on it. It does not in our State at least.

Mr. Duncan. I have paid it in numerous places. The reason I asked that question, I have paid 2 percent on the purchase that I have made.

Mr. Hudson. If the purchase was only a quarter?

Mr. Duncan. Yes; only a quarter.

Mr. Hudson. Any purchase of 15 cents, and I think it is up to 30 cents, in our State, is a penny, and 30 to 70 is 2 cents, and 70 to $1 it is 2½.

Mr. Duncan. There would be an opportunity here under your theory, would there not, for the merchant to collect several times the amount of this 2 percent in the way of small sales which in the aggregate make up the dollar?

Mr. Hudson. He does not collect any tax from the purchaser.

Mr. Duncan. He has the right to, does he not?

Mr. Hudson. He has not under a transaction tax. Under a sales tax he has a perfect right, and the law compels him to do so. That is the difference between a transaction tax and a sales tax. The premise upon which a sales tax is built is wrong because it dumps the whole cost of the tax into the lap of the consumer.

The Chairman. The theory upon which this tax is based, a tax on each transaction, is that this is a procedure through which you can get the money?

Mr. Hudson. This is a procedure through which you will get the money.

The Chairman. I understood you to say awhile ago that there were several transactions in each of which a profit had been made?

Mr. Hudson. Oh, no; you must have misunderstood me.

The Chairman. I think the record will show you referred to making a profit.

Mr. Hudson. No; no. I said the tax is not based upon the amount of profit that the individual makes. If he is chump enough to remain in business and not make a profit, that is his fault, not ours. He owes us the tax just the same.

The Chairman. If he buys the wheat and the market declines and he has to sell it to the miller for less than he paid, he pays the tax just the same?

Mr. Hudson. Yes. Might I enlighten you on that subject?

The Chairman. Your theory is that it gets the money.

Mr. Hudson. It gets the money.

The Chairman. Regardless of whether or not the man can afford to pay it or whether he can pass it on, or whether he pays it out of his profit or out of his loss?

Mr. Hudson. Exactly. It is almost impossible for him to pass the transaction tax on. But the door is wide open for him to pass the sales tax on.

The Chairman. Why do you say it would be impossible for him to pass it on? Is not the cost of anything taken into consideration in making a sale, as far as possible?

Mr. Hudson. May I illustrate this for you?

I contend under a transaction tax that a great deal of that tax will not be passed on to the consumer, because they are going to have a lot of trouble doing it.

Mr. VINSON. Take the wheat illustration.

Mr. HUDSON. We will take 1,000 bushels of wheat. I do not know why he used the $400 worth of wheat. It sells for a dollar a bushel. I am a farmer. I sell my 1,000 bushels of wheat for $1 a bushel and pay the Government $20. The doctor here has bought my wheat, as a small speculator. He walks over to the gentleman on his left and he says, "I have bought Hudson's wheat for $1,000. I now want $1,100 for that wheat." He then pays $22 as the tax, the doctor does, and he must pay that tax because he has made a hundred-dollar profit. And then it goes from there to the miller, and the miller grinds it into so many sacks of flour. A bushel of wheat the world around will produce a 48-pound bag of flour. The miller sells to the grocery man, Mr. Piggly-Wiggly. He says, "I want so much for the flour." All right; and he pays it. He pays a $24 tax. But he made $100 on the transaction. The store now has fallen heir to the flour. It puts the flour out at $1.50 a bag. He pays on a thousand bags of flour $26. There are five transactions. When you total the transactions, those five dealers have paid into Uncle Sam's coffers $122.

Now, let us see whether that could all be passed to the consumer, and if so, would it have any great effect on the matter. The 1,000 bags of flour would carry a tax of 1.22 cents on each bag. That is a cent and a quarter a bag. Will you please tell me how Mr. Groceryman is going to extract that tax from the purchaser? True, it will raise the price of the flour somewhat. And do we not want the farmer to get a little raise?

The CHAIRMAN. Let us go back and start with the farmer now. The farmer produces 1,000 bushels of wheat.

Mr. HUDSON. Yes.

The CHAIRMAN. The market is low, below the cost of production. He has to sell that wheat for less than his cost of producing it. Do you think it is a proper system of taxation that requires him to pay $20 for the purpose of giving a pension of $200 per month to some man like John D. Rockefeller or some other wealthy man that does not neet it?

Mr. HUDSON. Quite the reverse.

The CHAIRMAN. No; no reverse to it. When you take it out of the pocket of the farmer when he has a loss you make him unable to pay his taxes, and his farm may be sold. Is there any equity in a system of that kind, a system that will permit a transaction of that kind?

Mr. HUDSON. Our system does not permit it.

The CHAIRMAN. Why doesn't it?

Mr. HUDSON. Because the farmer is going to have a market for double the wheat that he has today and have an increased price. When our people consume all that they can consume he will not have any trouble getting $1.25 or $1.50 for his wheat, I hope.

The CHAIRMAN. But suppose this increases the price of labor, the price of machinery, the price of fertilizer, and the price of everything put into the production of that wheat with an inflated system. It costs him twice as much to produce as it did, or 50 percent more. What benefit, then, is 25 cents a bushel?

Mr. HUDSON. You cannot increase the cost of production of wheat.

The Chairman. You can very easily. His machinery, his fertilizer, and his labor costs are all doubled. Then along may come a bad crop year, a drought, a flood, or something of that kind, and he may not be able to get more than half the cost of production. Yet under your system he is forced to pay a tax to pay a pension to some man who may not need it at all.

Mr. Hudson. Because under our system we have made it possible for him to sell double the amount of wheat he sells now.

The Chairman. You cannot prove that he has not doubled the cost of production.

Mr. Hudson. You cannot prove that.

Mr. Woodruff. You say you would double the consumption of wheat in this country?

Mr. Hudson. No; but we ought to double the price of wheat.

Mr. Woodruff. You said you would double the consumption of wheat in this country.

Mr. Hudson. No. We could not expect to double the consumption of wheat.

Mr. Woodruff. Would you increase it substantially?

Mr. Hudson. That is a question that would be pretty hard to answer. What I meant was this: The farmer is not going to sell his wheat for 30 or 40 cents, as he has had to do in the last few years. I contend this—that when you feed the people properly and allow them to use all that they can use, your consumption will be increased very materially.

Mr. Woodruff. I agree that it will be increased, because I think there are a great many people in this country that are underfed.

Mr. Hudson. There is no question about that.

Mr. Woodruff. I think it would be interesting to you if you get the figures on the consumption of wheat in this country back in the very prosperous period from 1926 to 1929 and compare that period with the consumption of wheat during the past year or two, when the consumption of wheat, as well as other food products, has been down. I think perhaps that can be of help to you. I think that it would be advisable for you to get that information.

Mr. Hudson. We were not consuming in 1929 all that we could consume by any means.

Mr. Woodruff. We never have.

Mr. Hudson. No.

Mr. Woodruff. And we never would, even under the proposition that you are submitting to the committee, because there would always be unfortunate prople below the age of 60 who would not, perhaps, be able to get all the food they would care to have.

Mr. Hudson. If they get all the work at a decent wage they will.

Mr. Woodruff. But there are so many people who cannot work; and unfortunately, there are so many people who will not work.

Mr. Hudson. Oh, that is true. Those people we are always going to have with us.

Mr. Lewis. We were dealing with the feature of the bill which demands the Secretary of the Treasury to authorize all National and State banks, members of the Federal Insurance Deposit Corporation, to credit each properly identified pensioner the first day of each month with the sum of $200. I think I know the bankers in my own county and district, and would suggest that merely being authorized to do it,

not a single bank in my district would enter the credit. Then the resort of the claimants, you say, would be to the Pension Office?

Dr. Townsend. Why not?

Mr. Lewis. To the Pension Office?

Dr. Townsend. Yes.

Mr. Lewis. But the bill carries no authority to the Pension Office to make such payments.

Dr. Townsend. Gentlemen, it seems to me we are splitting hairs, and we are missing the point. Anything that is deemed of benefit to the entire Government of the United Stotes, the people of the United States can put into effect. We could quibble here all day about details of how things are to be done.

Mr. Lewis. You think this question of mine relating to this bill that may not have enough mechanisms in it to operate is mere quibbling?

Mr. Hudson. I did not.

Dr. Townsend. All right; we claim that it is there.

Mr. Lewis. The bill carries no appropriation to the Pension Department, even if it might assume authority to pay the pensions.

Dr. Townsend. Is there anything to hinder us from making that appropriation if the Congress can agree upon it?

Mr. Lewis. I call attention to a very unusual circumstance in the bill. You provide that this bill shall be cited as the "Townsend Old-Age Revolving Pension Act", the "Townsend Act." Plainly on its face, your own bill would not provide the payment of a single dollar's pension to these expectant pensioners, even if the money could be raised in the way you have suggested. I submit that to the lawmakers at this table or elsewhere as a correct statement of the effect of this bill.

Dr. Townsend. I still do not get your question—if it is a question.

Mr. Lewis. Is it your idea that you are merely submitting a suggestion to the lawmakers here about how the Committee on Ways and Means, if it took the time, might develop a bill that would be workable?

Dr. Townsend. Yes; I am.

Mr. Lewis. That is all you are doing?

Dr. Townsend. We expect to have this bill taken as any other bill is taken, and if modifications are necessary, to make them. You do that with every bill that is presented. There are amendments offered on all bills.

Mr. Lewis. You are expecting the Ways and Means Committee to make this bill a practical measure; is that correct?

Dr. Townsend. You are trying to do that with another bill, and you are going to fail. What are you going to do about that?

Mr. Lewis. You express your opinion about that.

Dr. Townsend. No; it is not my opinion about that. You are proposing an absolutely unworkable bill. You cannot possibly pass the buck to the States and have the States pass the buck back to you and have this bill work with anything like equity and fairness. It cannot be done. I know the situation of the States. Probably you do.

The Chairman. Why do you suggest that this committee take your bill and perfect it, when right in the face of that you say the committee has no more judgment than to be proposing an entirely

impracticable bill? Why do you leave anything to our discretion, in view of the statement you have just made? Why do you not come here with a bill which you yourself have perfected, if you say we are proposing a bill that is totally impracticable? I do not see the logic in that statement.

Dr. TOWNSEND. I do not suppose you are through. My supposition is that you are not through yet—that you are going to continue to try to work out an equitable and fair bill.

Mr. KNUTSON. Somewhere in your publicity matter you have stated that the passage of this legislation would jump all business up to a trillion two hundred billion dollars annually.

Dr. TOWNSEND. Yes. We think it would not stop at that.

Mr. KNUTSON. On the basis of 120,000,000 people, it would be a per capita turn-over for every man, woman, and child of $10,000 a year.

Dr. TOWNSEND. All right. What has it been in the past? Tell me that?

Mr. KNUTSON. I do not know.

Dr. TOWNSEND. Well, you ought to know.

Mr. KNUTSON. I have never been able to find out just what it has been.

Dr. TOWNSEND. You ought to know. If these figures are right that are furnished by the Federal Reserve bank, that a dollar turned over 132 times in 1929, then what was the per capita turnover?

Mr. KNUTSON. In your literature the claim is made that the total money value of all transactions in 1933 was a trillion—we used to talk of millions when I came to Congress, then it was billions, now it is trillions—was a trillion, two hundred million.

Dr. TOWNSEND. Yes, sir.

Mr. KNUTSON. The authority for that was given as the Fifty-fifth Statistical Abstract of the United States. I sent over to the Library of Congress Friday and got the Fifty-fifth Statistical Abstract of the United States, and I could not find it. I wish that your statistician would give me the page where this information was obtained, because I am pretty busy and I would not like to go through that book again.

Mr. HUDSON. I have never made such a quotation from the Fifty-fifth.

Mr. KNUTSON. I did not say that you had made it. It has been made in the literature that has been sent out and has been sent to me.

Mr. HUDSON. That is possibly true. It does not appear in the Fifty-fifth Statistical Abstract. I could not find it.

Mr. KNUTSON. I could not, either. I spent three hours trying to.

Mr. HUDSON. I spent a whole night.

Mr. KNUTSON. We have wasted a lot of good time, have we not?

Mr. HUDSON. You bet we have.

Mr. KNUTSON. I want to say this, that this committee wants to report out the best possible pension plan because that is what we are trying to do. We want to report out the best plan that will stand up. But when you get to talking in the trillions—of course I will admit that I am a novice, it took me a long time to adjust myself to billions, but I am gradually getting around to it. Possibly before I get through with Congress, if you folks do not ride me too hard, it may turn to trillions.

Mr. HUDSON. May I make a statement that is in keeping with what you just pointed out, that the average turnover would be $10,000 per year per capita on 120,000,000 people? That is correct.

Mr. KNUTSON. If that were true, that would mean a turnover of $50,000 for a family of five.

Mr. HUDSON. Of course, you cannot ratio that on families.

Mr. KNUTSON. You have to go on an average basis, you know, do you not, in a way?

Mr. HUDSON. No, no, no; because of the fact that you have your great big corporations that are making this turnover for thousands of families.

Mr. KNUTSON. But how are you going to jig this up to a trillion two hundred million, and not take into consideration pay rolls?

Mr. HUDSON. We do not want to bother the pay rolls at all, except this:

We want to increase the pay rolls. We want to raise the pay roll. Pay roll has no bearing upon the transactions that are committed. In other words, if I receive my check today—which I do not have coming, but if I did have one coming—and I go into his store or his bank and deposit it, and I then begin writing my checks, now, the transaction is completed. But the pay roll would only show as a debit or a book account through the bank.

Mr. KNUTSON. But a pay roll is a part of a transaction that enters into the cost of production.

Mr. HUDSON. We have eliminated the taxing of a pay roll, or attempted to do so in that bill.

Mr. KNUTSON. I come from an agricultural district. Let us take a bushel of wheat.

Mr. HUDSON. Yes.

Mr. KNUTSON. The price is now about a dollar a bushel.

Mr. HUDSON. Correct. That is why I made this illustration.

Mr. KNUTSON. I was not here when you made it. Would you mind making it again.

Mr. HUDSON. I would be glad to. It shows the tax, too.

Mr. KNUTSON. You take that bushel of wheat.

Mr. HUDSON. One dollar.

Mr. KNUTSON. At a dollar. That is in a primary market.

Mr. HUDSON. Let us make it a thousand bushels. The digits, as Will Rogers says, will not make any difference.

Mr. KNUTSON. Let us make it one. That is easier for me to grasp.

Mr. HUDSON. I suggested that because I have it all figured out as to what the tax would be.

Mr. KNUTSON. All right, make it a thousand.

Mr. HUDSON. The farmer gets $1,000 for the thousand bushels of wheat. He pays Uncle Sam $20.

Mr. KNUTSON. Yes.

Mr. HUDSON. He sells it to the smaller buyer.

Mr. KNUTSON. That is the primary market.

Mr. HUDSON. That is the primary market, the fellow that is buying it up and going to ship it. He in turn sells it for $1,100. He pays Uncle Sam $22. Now, the miller gets hold of it. He sells it for $1,200 after grinding it into flour. He pays Uncle Sam $24. The jobber now buys it of the miller, paying the miller $1,300. That is a $26 tax. Now it has reached the store.

Mr. Knutson. Well, let us take the baker first.

Mr. Hudson. No, let us put it into the store.

Mr. Knutson. No, we have to make it into bread first.

Mr. Hudson. All right, we will take it as far as you want it, right to the breakfast table.

Mr. Knutson. Let us make bread out of it.

Mr. Hudson. Now, it has reached the store man. He sells the flour for $1.50 a bag. He pays a $30 tax. The five transactions have accumulated a tax to Uncle Sam of $122.

Mr. Knutson. That will be $122. That is 12.2 cents a bushel.

Mr. Hudson. On the original thousand bushels that is correct.

A bushel of wheat will always produce a 48-pound bag of flour. If they added that $122 as a total tax, assuming that you did add it, to each purchase price of the sack of flour, each sack of flour would carry a tax of 1.22 cents. Could any flour consumer object to that?

Mr. Knutson. No.

Mr. Hudson. What, then, have these contributors done for themselves who have contributed this tax? Each has paid in that sum of money to the United States Treasury, which is his part, or the purchase price of his annuity, that he expects to enjoy at age 60.

Mr. Knutson. Well, now, wait a minute, you say this tax on that sack of flour is how much?

Mr. Hudson. 1.22.

Mr. Knutson. It is 12.2 cents on a dollar.

Mr. Hudson. On the original?

Mr. Knutson. Yes.

Mr. Hudson. Oh, that is true, but you are not dealing with the original.

Mr. Knutson. Yes we are, we are taking it right down into flour.

Mr. Hudson. Then your method would be to take it all away from the farmer.

Mr. Knutson. What I am trying to point out is that it is an accumulative tax.

Mr. Hudson. Yes.

Mr. Knutson. Your primary tax, the terminal tax, the miller's tax, the baker's tax, and then there is the retailer's tax.

Mr. Dingell. We have covered only half the distance. You just took your wheat and reduced it to flour. It is still in the hands of the wholesale handler of flour. It has not got to the baker yet.

Mr. Hudson. We went down to the store. We went down to the store with the sack of flour.

Mr. Knutson. But the fact nevertheless remains that the tax on that bushel of wheat is 12.2 cents.

Mr. Hudson. On the original purchase price?

Mr. Knutson. Yes; where do you get that cent you had? You are a Houdini when it comes to figures.

Mr. Hudson. You cannot make it out anything else.

Mr. Knutson. You say that it takes a bushel of wheat to make 48 pounds of flour?

Mr. Hudson. That is correct.

Mr. Knutson. Then the two terms are synonymous, are they not?

Mr. Hudson. Yes.

Mr. Knutson. Whether you call it a 48-pound sack of flour or a bushel of wheat, I have a charge against that of 12.2 cents.

Mr. Hudson. You have 10.22, if you charge the whole thing against the flour.

Mr. Knutson. Well, would you not?

Mr. Hudson. That is a question that might be done but I doubt it very materially.

Mr. Knutson. I guess we are pretty well agreed. We are not going to split hairs. I am in complete sympathy with Dr. Townsend, we should not split hairs or quibble on this thing, whether you call it 10 cents or 12.2.

Mr. Hudson. Yes; it would not make any difference.

Mr. Knutson. What are you doing in this bill? You are increasing the cost of living to those who are paying this pension?

Mr. Hudson. Yes.

Mr. Knutson. Those under 60, what are you doing to increase their buying power so that they can absorb the shock of the increase?

Mr. Hudson. We are going to increase purchasing power, and we are going to increase jobs to be had by retiring the aged of the Nation, the aged workers.

Mr. Knutson. You admit with your plan you are going to have at least a modified form of inflation. Otherwise you could not accomplish what you say you are going to accomplish.

Mr. Hudson. What do you term as inflation, the increase of prices?

Mr. Knutson. I mean that the dollar will buy less. That is inflation.

Mr. Hudson. That might be true. Technically speaking I think that it is.

Mr. Knutson. To what extent would the purchasing power of the dollar be reduced?

Mr. Hudson. As far as the tax is concerned, very, very little.

Mr. Knutson. According to the figures you gave me, it will be at least 10 percent, and according to my figures it will be 12.2 percent. What provision are you making to increase the pay of those who will have to pay this tax by 12.2 percent?

Mr. Hudson. We are making it possible for them to have jobs and ample wages, by taking out the workers today who reach 60 years of age.

Mr. Knutson. In what part of the bill do you make provision for the workers, for those who are going to carry on?

Dr. Townsend. May I speak a word in reply to that?

Gentlemen, think back a little bit. We had a war 20 years ago.

Mr. Knutson. Yes.

Dr. Townsend. If an increase in price means a tax, we paid a 100-percent tax at that time and liked it. It was the best period of prosperity this country ever saw.

Mr. Knutson. And what followed it?

Dr. Townsend. What followed it? Never mind what followed. We are not going to have any such thing as that follow. We propose a prosperity based on the turn-over of money such as we had in that day, and we are going to keep it up.

Mr. Knutson. As I understand it, then, this is a bill to abolish the morning after the night before, speaking in terms of economics.

Dr. Townsend. This is going to abolish the morning after, certainly.

Mr. Knutson. If you can do it, I am for it.

Dr. Townsend. It can easily be done.

Mr. Vinson. In approaching consideration of this bill that is on the calendar there has been considerable difference as to what constitutes a financial transaction, and I think that you gentlemen, who have given this very considerable study, should be able to submit to us a definition of "financial transaction" such as would permit a sufficient base, when you consider the 2-percent levy, as would yield the moneys necessary for the operation of this bill.

In bills of this character where you have language of that kind there must be a definition. You can have it by the Congress or you can have it by the administrative body. But I submit that, in all fairness, you gentlemen should submit the definition to us of what a financial transaction is, in your own minds. Can you do that?

Dr. Townsend. Certainly.

Mr. Vinson. In that same connection, I would like to have you submit a definition of what you intend the words "gainful competitive pursuits" to mean. Just put yourself in the place of the administrative body. You are going to levy the tax. What would be gainful competitive pursuits of what would be excluded therefrom? What would a financial transaction be? We got a part of the way this morning on "gainful competitive pursuits", when Mr. Hudson was frank enough to say that he would include even Henry Ford or Andrew Mellon or anyone else who was clipping coupons, if they were above the age of 60 years.

Mr. Hudson. We would be glad to submit that.

Mr. Vinson. Is that correct? Would you not include Mr. Andrew Mellon as a beneficiary under this bill, he being past the 60 years of age?

Mr. Hudson. Absolutely.

Mr. Knutson. I was chairman of the Pensions Committee of the House for 11 years, and it was our experience that even though the pension was only twelve or fifteen dollars a month, if a millionaire was entitled to it he would put in for it, invariably on the ground that it was recognition, not for the monetary value. I used to suggest we would rather pin medals on them; it would be cheaper. But if the rich man will put in for a $12 pension he will certainly put in for a $200 pension if he is an American. So I think that that statement that one-third of the people who would be eligible would not apply because they do not need it falls of its own weight, based upon past experience, because the American people are getting to be pension minded, you know. It is considered a badge of honor.

Mr. Hudson. I think you quite misunderstand that one-third not applying, because you must bear in mind that in the United States we have many, many aliens who are past the 60 years of age. Do you realize that we have nearly 4,000,000 aliens in this United States?

Mr. Knutson. They are not all over 60, are they?

Mr. Hudson. Oh, no; but there is a major portion of them that are over 60, because of the fact your immigration laws have been so restricted the last 15 years.

Mr. Vinson. Mr. Hudson, turning to page 3 of your bill, I believe it is marked "subsection (a)" of section 3, anyhow, it is the first paragraph at the top of page 3, I note that you provide for the licensing of all sellers of goods, commodities, and commercial things of value. Why is it that you fail to provide for licensing of those who perform services, because that is a rather substantial part of the bill?

Mr. HUDSON. And they are taxable, too.

Mr. VINSON. Why do you not license them?

Mr. HUDSON. They should be.

Mr. VINSON. They should be? That was just omitted? Is there any reason for omitting them?

Mr. HUDSON. Not a bit. We want even to license the practitioners of law, in order that they may pay their tax.

Mr. VINSON. That was simply dropped out and should not have been?

Mr. HUDSON. Should not have been; no, sir. I agree with you perfectly.

Mr. DINGELL. Does that include medical men?

Mr. HUDSON. Absolutely. They are not salaried men. That also includes all commission earners, such as life-insurance agents.

Mr. DINGELL. And brokers?

Mr. HUDSON. And so forth; exactly. You see, you have to confine this thing. The point that you are missing is this, I believe, that this is merely the citizen's premium of his annuity to begin at age 60. It is logic. There is no question about that.

Mr. VINSON. Did you take into consideration in your formulation of this bill, since you are trying to extend the relief to the greatest possible number of those that you consider worthy, the possibility of splitting the $200 pension to $100, and thus reaching twice as many people?

Mr. HUDSON. You mean by lowering the age?

Mr. VINSON. Not necessarily. Well, lowering the age, or following some other method to find a sufficient number so that it would be $100 per month, and twice as many people taking advantage of the Townsend plan.

Mr. HUDSON. If you reach twice the number——

Mr. VINSON. Say you reached down to the 50-year limit.

Dr. TOWNSEND. That is too many.

Mr. VINSON. What I have in mind in that connection is this: You know that under our present system, particularly in the field of manufacture, a man is classed as obsolete, ready for the discard, at 45.

Mr. HUDSON. Correct.

Mr. VINSON. It seems to me that some of the people at 45 are entitled to some consideration. Why should we jump from 45 to 60, leaving that gap? I presume your supposition is based on the thought that when you take out those that are gainfully occupied above 60, they will in all probability, when they are removed from the field, take care of some of those from 45 to 60.

Mr. HUDSON. It will take care of the major part of them. Now, if I might use an illustration, we will take the railroads with which we are all familiar. We will take one section of the Railway Brotherhoods, the Brotherhood of Locomotive Engineers. In the year 1929, they had 92,000 members, that were working all on extra time. Today that membership has fallen—that is, at the beginning of 1934; I do not say today, you understand. It amounted to what? 59,000. I said to the chief engineer, "What has become of the 33,000, the difference between the 92,000 and the 59,000?" He said, "They are what we call bucking the extra board." I said, "Will you tell me then what is the average age of your 59,000 railway engineers?"

"The average age is 54 years.". "How many of them are above 60?" "34,400."

If 34,000 railway engineers were eliminated from the field of labor, what would happen to the 33,000 unemployed railway engineers?

Mr. VINSON. But that is where it appears to me you have not taken them into consideration, because that element that are employed, you say, average about 54 years. They still have 6 more years to go before they will be considered for the $200 pension under the Townsend plan.

Mr. HUDSON. Yes.

Mr. VINSON. Now, I say, if you went down to 50 years——

Mr. HUDSON. Too low.

Mr. VINSON. And split the pension benefit which you propose under your plan, you would take in those 39,000, or the number you mention, and give them each $100. And I venture to say that since the Nation has become pension-minded, those fellows would prefer to get in and take $100 pensions than to be out there on a cold winter night driving a locomotive.

Mr. HUDSON. But can you not see that if you do that, when you retire the ones that are above 60 you have already created a shortage of engineers? There are only 33,000 idle engineers, and there are 34,400 above the age of 60 that are now employed.

Mr. VINSON. Yes; but you say that of those who are employed, there are 34,400 who average 54 years of age.

Mr. HUDSON. No; above 60. The whole of the 59,000 averaged 54, but above 60 years of age there are 34,400.

Mr. KNUTSON. I have gone through this bill quite carefully. It is not as liberal as I thought it was. For instance, I see that you have failed to make provision for dependent mothers with children; you have failed to make any provision for crippled children, for blind people, or feeble-minded people. Certainly you will admit that a mother with five or six or seven small children should be more entitled to a pension than Henry Ford.

Mr. HUDSON. Oh, yes.

Mr. KNUTSON. I understand you do not claim authorship of the bill.

Mr. HUDSON. I do not.

Mr. KNUTSON. I would call that to their attention if I were you.

Mr. HUDSON. I will be glad to.

Mr. KNUTSON. Because that is a very serious oversight.

Mr. HUDSON. I want to call your attention to this fact, though: The mother of five or six little children, through our system of intermarriage in this United States, must have at least a grandma or a grandpa living from one or the other of the parents.

Mr. KNUTSON. I have neither a grandma or a grandpa.

Mr. HUDSON. But you do not have any five or six little babies, either.

Mr. DINGELL. And you are not a mother, either.

Mr. HUDSON. But if I were the pensioner, and if your daughter married my son and was left a widow with two babies, it would certainly be my first desire to take care of her and those little children.

Mr. KNUTSON. The chances are you would want to take them all in, would you not?

Mr. HUDSON. Absolutely. That is what the aged people of this Nation would do.

Mr. KNUTSON. Why make them dependent on the old?

Mr. HUDSON. Of course, you consider that a different field from aged pensions. I think that should be taken into consideration.

Mr. KNUTSON. That would result in a bigger turnover. The more we can get into this scheme the bigger the turnover and the greater the prosperity.

Mr. HUDSON. I agree with you perfectly, because it is the velocity that counts and not the quantity of money.

Mr. HILL. Dr. Townsend, I understood you to say that in 1929 the dollar turned over 132 times.

Dr. TOWNSEND. Yes, sir.

Mr. HILL. What do you estimate would be the turn-over under the provisions of this bill?

Dr. TOWNSEND. It should be vastly increased.

Mr. HILL. About how much?

Dr. TOWNSEND. Over anything we have ever known. I do not know that there is any particular way of making a definite estimate. I figure that under this system of taxation whereby everybody gets his shoulder under the load, making it so light that no one will feel it, particularly, seeing to it that a sufficient amount of money is in circulation constantly, forced there by the strength of the National Government, we shall be able to create a state of business that will quadruple anything we have ever known.

Mr. HILL. Quadruple? That is multiplied four times?

Dr. TOWNSEND. Yes, sir.

Mr. HILL. Say, 528 times under the plan of this bill; $1 would turn over 528 times.

Dr. TOWNSEND. Approximately.

Mr. HILL. That is, in a year?

Dr. TOWNSEND. Yes.

Mr. HILL. That would be 528 transactions on the average for a dollar?

Dr. TOWNSEND. Yes, sir.

Mr. HILL. Each transaction would bear a 2-percent tax. The burden of tax that each dollar would carry would be twice 528, or $10.56.

Dr. TOWNSEND. Then we will easily reduce the tax, the rate of tax that is provided for in the bill. It can be reduced until no one will know that he is paying a tax. It will be insignificant—a half of 1 percent will carry the entire pension roll, once we get fairly going under this system.

Mr. HILL. $10.56 burden on each dollar would deflate the purchasing power of the dollar by how much? Have you figured that out?

Dr. TOWNSEND. You cannot figure it out. You cannot possibly tell what the opposing forces of inflation are. There are opposing forces to inflation always. One of them lies in the fact that mass production has always a tremendous influence toward price deflation.

Mr. HILL. If you had a velocity of turn-over of 528 times, and imposed upon that the credit turn-over which ordinarily goes along with the dollar turn-over, you would have an inflation of the circulating currency and circulating credit that would be almost beyond the power of the mind to grasp. Do you think there would be any inflationary effects from that, that would tend to reduce the purchasing power of the dollar to practically nothing?

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Dr. Townsend. I do not think there would be any tendency toward undue inflation at all, for the simple reason that the entire tendency of competition would be the reverse. If you are in business and something happens to quadruple your volume of business, certainly you would quadruple your volume of profits.

Mr. Cooper. I wanted to direct attention to the question which was raised in my mind by the answer made by the gentleman a moment ago. I understood you to say that although it was not now provided in this bill, it should be provided that this tax would be levied upon personal services, too?

Mr. Hudson. Correct.

Mr. Cooper. In other words, everybody who receives any compensation for personal services of any kind or character should be taxed?

Mr. Hudson. With the exception of the wage earner.

Mr. Cooper. As provided in this bill?

Dr. Townsend. Wages and salaries.

Mr. Hudson. Correct.

Mr. Cooper. That is, everybody.

Mr. Hudson. Except the wage earners. You understand you are not including them, are you?

Mr. Cooper. What do you mean by "wage earners"?

Mr. Hudson. I mean that the man who has to go out on to the street and dig ditches for $4 a day.

Mr. Cooper. What is ordinarily termed "common labor"?

Mr. Hudson. Yes; because he is going to pay his tax in the higher cost of his living.

Mr. Cooper. And everybody except the so-called "common laborer" would have to pay the tax?

Mr. Hudson. Yes, sir.

Mr. Cooper. On the amount of salary or compensation received? That is, a tax to be levied by the Federal Government?

Mr. Hudson. Yes.

Mr. Cooper. What do you think of the legal question that would be promptly raised insofar as State, county, and municipal employees are concerned?

Mr. Hudson. I think from the employee's standpoint, there would be no question. There would be no objection on his part.

Mr. Cooper. I understand, but do you think the Federal Government has the right——

Mr. Hudson. I do not.

Mr. Cooper. Under the Constitution to levy a tax on State, county, and municipal employees?

Mr. Hudson. I do not.

Mr. Cooper. There would at least be that large group of citizens of the country, including school teachers and all those who receive their compensation from any unit of government, who would be relieved of the tax that all other citizens would have to pay. Do you think that would be fair?

Mr. Hudson. I do not think you could relieve the school teacher. True, they are a salaried individual.

Mr. Cooper. Yes; they are paid by the city or the county or the State.

Mr. Hudson. Yes; that is true, too.

Mr. COOPER. There would be all of that vast number of salaried people in the country who would be relieved of this tax that you say should be levied uniformly over everybody.

Mr. HUDSON. It should, because everybody benefits.

Mr. COOPER. You admit that there would be an inequality that should not be allowed, do you not?

Mr. HUDSON. In my judgment; yes.

Mr. COOPER. Then what authority in law would we have to reach that situation?

Mr. HUDSON. I should judge that is up to the law-making body.

Mr. COOPER. That is what we propose to be right here. We propose to be just that right here.

Mr. HUDSON. You are.

Mr. COOPER. But we have a Constitution in this country, you know, that fixes the limits beyond which we cannot go. We are not now assembled to form a government or inaugurate a system.

Mr. HUDSON. That is correct.

Mr. COOPER. We do not have unlimited powers and opportunities, but we are circumscribed by the fundamental law of the land and the Constitution.

Mr. HUDSON. Yes.

Mr. COOPER. I believe you will concede that we could not reach that group, and there would be one inequality that would have to exist that would not be right. Is not that true?

Mr. HUDSON. That might be true.

Mr. COOPER. Further along that line, I invite your attention to section 6 of the McGroarty bill.

Mr. HUDSON. Yes, sir.

Mr. COOPER. In which it is stated as I read:

All salaries for individual services are hereby exempted from the tax provisions of this act.

You say they should be taxed. It is the intention and the purpose to tax them. But section 6 of the bill itself in plain language provides that they shall be exempted. What explanation have you to offer on that?

Mr. HUDSON. Again, I state that I am not holding myself responsible for that bill. Of course, I think that you men have the power and should have, and that bill should be changed.

Mr. COOPER. I understood you to state awhile ago very frankly—and I think you have been frank in your responses.

Mr. HUDSON. I have tried to be.

Mr. COOPER. I understood you to state awhile ago very frankly you think this bill is very loosely drawn.

Mr. HUDSON. I restate that.

Mr. COOPER. Would it be fair to ask you this question:

Suppose you sat in the seats that we occupy at this table. As the bill now stands in its present form, do you think you would be safe in voting to report it and support it, as a representative of the people?

Mr. HUDSON. No; I do not.

Mr. COOPER. Thank you very much. That is very kind.

Mr. HUDSON. I mean, as to this bill.

Mr. COOPER. Yes; that is what we have under consideration.

Mr. HUDSON. However, that can be readily changed and amended.

Mr. COOPER. You think it would have to be changed in many respects, do you not?

Mr. HUDSON. Possibly.

Mr. COOPER. Just one other point now, along the line of the inquiry of my colleagues of Washington on this question of the turn-over. I can appreciate that the question of the velocity of money is a great factor.

Mr. HUDSON. Yes.

Mr. COOPER. I understood you to state in the course of your presentation here that a dollar turned over 132 times a year.

Mr. HUDSON. No, no.

Mr. COOPER. In 1929.

Mr. HUDSON. In 1929. I was quoting from Dow-Jones. But we have not taken that 132 times into consideration. For your information, the average turn-over for the last 5 years, which have been low years you will admit——

Mr. COOPER. Yes.

Mr. HUDSON. Was an average of 34 times.

Mr. COOPER. Thirty-four times?

Mr. HUDSON. Yes. Now, that is 1930 to 1934, inclusive. If you want to estimate and use your average turn-over of 34 times, I think is is only fair to admit that the pension money would not turn less times than our money has the past 4 years, any one of them.

Mr. COOPER. I think there is no question but what we all want to be fair, and we want to analyze these things.

Mr. HUDSON. Thank you. I appreciate that very much. I know you have been.

Mr. COOPER. You would not for a moment advocate anything you did not think could be thoroughly analyzed?

Mr. HUDSON. If I did not think this was sound, Mr. Cooper, I would not be here.

Mr. COOPER. I am sure of that. That is the purpose of this analysis.

Mr. HUDSON. Exactly.

Mr. COOPER. To try to separate the shadow from the substance, and find what we have to take hold of as practical legislators, endeavoring to represent the American people.

Mr. HUDSON. Correct.

Mr. COOPER. On the basis of your figures that a dollar turns over and had turned over an average of 34 times——

Mr. HUDSON. That is Dow-Jones, however. Yes; that is all right.

Mr. COOPER. I believe you said that that is your thought, too.

Mr. HUDSON. Yes.

Mr. COOPER. That would be, of course, levying a tax of 2 percent?

Mr. HUDSON. Yes.

Mr. COOPER. It would be 68.

Mr. HUDSON. Oh, but you must levy the tax on the value of the dollar, not on the turn-over.

Mr. COOPER. I understand, but in the end you wind up with that percentage, do you not?

Mr. HUDSON. No, no; you do not, Mr. Cooper.

Mr. COOPER. Each time the dollar turns over it carries that transaction tax?

Mr. HUDSON. Yes; but you must bear in mind that you must take your total transactions. I think what you would like to have is this:

In other words, if your dollar turns 34 times, the 18 billion then must be turned 34 times 18 billion. Then that would produce in commodities or purchasing power 915 billion 446 million. You take then your tax on your total of 900 billion, and you produce 18 billions of dollars in revenue, do you not?

Mr. COOPER. On the 2 percent?

Mr. HUDSON. Yes.

Mr. COOPER. I believe you went into this before to some extent, I do not know exactly on this question or not, but the 1930 census shows there were 10,385,026 people of 60 years of age and over. That is the 1930 official census of the Government.

Mr. HUDSON. Yes; I think the 1930 census gives it slightly under, and another report gives it slightly over. Our records show 10,383,000. I am speaking of our insurance statistics.

Mr. COOPER. The cost of paying $200 a month would be $2,400 a year?

Mr. HUDSON. Yes.

Mr. COOPER. The cost of paying $2,400 a year to those 60 years and over of course would amount to $24,924,062,400.

Mr. HUDSON. Yes, Mr. Cooper, but you cannot hope to pension that number.

Mr. COOPER. Assuming that you could, that is what it would amount to?

Mr. HUDSON. That is what it would amount to; yes.

Mr. COOPER. In order to raise this amount of money by a 2-percent tax there would have to be this enormous figure that has been quoted repeatedly here today of $1,200,000,000,000 in volume of business?

Mr. HUDSON. Correct.

Mr. COOPER. Taxable volume of business in the country?

Mr. HUDSON. Yes.

Mr. COOPER. Of course, that could result only in one thing, and that would be an unusually large increase in commodity prices, would it not?

Mr. HUDSON. I think your commodity prices are going to step up. We hope that they do. That is what the administration has been trying to do.

Mr. COOPER. In order to approach any such tremendous volume of turn-over of business transactions in this country, it would require an unusually large increase of commodity prices, would it not, to sustain that enormous volume?

Mr. HUDSON. No; Mr. Cooper; I do not agree with you there, because of the fact it would not necessarily have to hoist the prices of everything up to where they would be out of reach. You must bear this in mind, that when you turn over as much as a billion and a half of money per month, you are going to create a great demand for commodities.

Mr. COOPER. Yes; and one result of that, of course, is rising prices. The greater the demand for anything the higher the price goes. Is not that the common experience of all of us?

Mr. HUDSON. We are going to be able to supply the demand for many years to come, in my judgment.

Mr. COOPER. I understand, but now you must admit that it is common sense and common experience with all of us that the greater the demand the higher prices go.

Mr. HUDSON. Yes.

Mr. COOPER. We have always experienced that, have we not?

Mr. HUDSON. That is true, if the commodities cannot be had, if there is scarcity.

Mr. COOPER. I understand.

Mr. HUDSON. But I do not think there would be any scarcity.

Mr. COOPER. But to the extent that you do increase the demand for them, to that extent there is going to be a rise in commodity prices?

Mr. HUDSON. A rise, and a justifiable one.

Mr. COOPER. What is going to happen to this vast number of people in this country below the age of 60 years, who would have to meet these greatly increased prices of everything they had to buy? What is going to happen to them?

Mr. HUDSON. Their profits have increased. Their wages have increased.

Mr. COOPER. Is there anything in this bill about the wages of these other people?

Dr. TOWNSEND. It does not need it.

Mr. HUDSON. Oh, no; there is not.

Mr. COOPER. It is not treated here at all?

Mr. HUDSON. No; it is not.

Mr. BROOKS. How do you figure out the wages of a man under 60 years old under this forced expenditure will be increased? That is what I do not see.

Mr. HUDSON. Through the scarcity of labor.

Mr. BROOKS. You admit that you have no idea of where prices are going to go.

Mr. HUDSON. Oh, I do not think the tax would raise prices 5 percent; that is, the tax itself.

Mr. BROOKS. Do you not think that the expenditure of $24,000,000,000 a month would increase prices?

Mr. HUDSON. It is not an expenditure.

Mr. BROOKS. It is not?

Mr. HUDSON. It is the purchase price of an annuity or an investment.

Mr. BROOKS. Do you not think that that would increase prices?

Mr. HUDSON. We want the prices to increase.

Mr. BROOKS. I say, do you not think that it will increase it?

Mr. HUDSON. We want them to; yes. Yes; I think it will. But I do not think it is going to bring wheat up to $2 a bushel.

Mr. BROOKS. You have no idea then of what it is going to go to? Is not that $24,000,000,000 inflation?

Mr. HUDSON. Inflation?

Mr. BROOKS. Leave the pension out of it. Is it not new money? Is it not the same thing as issuing new money?

Mr. HUDSON. No; you do not need another cent of money in this country of ours, if you will just take it out of its hiding place and start it to work.

Mr. BROOKS. You have forced this Nation to spend $24,000,000,000 a year. Is not that the same as though you issued new money?

Mr. HUDSON. I am not forcing the Nation to spend 1 cent. We are not asking the Nation to spend 1 cent.

Mr. BROOKS. Under your system, you ask that every man over 60 spend $200 a month.

Mr. Hudson. Yes.

Mr. Brooks. It equals $24,000,000,000 a year. Is not that just the same as though we issued new money?

Mr. Hudson. No; we do not need any other money.

Mr. Brooks. Does it not have the same effect on the commodity prices? Does it not have the same effect on the depreciation of the dollar, and does it not have the same effect on the depreciation of wages as though it were new money?

Mr. Hudson. You will never depreciate wages when you will not depreciate the commodity prices.

Mr. Brooks. Does not your advance of prices decrease your wages?

Mr. Hudson. No.

Mr. Cooper. I am seeking some information here and I would like to analyze it a little further, if I may. I believe you agreed with me a moment ago that in order to approach the tremendous volume that would have to be attained in order to support this plan here, we would have to have considerable increase in all commodity prices.

Mr. Hudson. Oh, yes.

Mr. Cooper. There cannot be any doubt about it?

Mr. Hudson. There will be an increase; yes.

Mr. Cooper. It has not been my good fortune to enjoy the acquaintance of the gentleman, and I think it would be fair to ask a few practical questions with reference to your background.

Mr. Hudson. I would be glad to give it.

Mr. Cooper. You are here before us as an expert on these matters. I assumed from what Dr. Townsend said that you were an economist of considerable experience.

Mr. Hudson. I am not an economist at all.

Mr. Cooper. Just what has been your field of endeavor?

Mr. Hudson. Actuary and life insurance statistician, all of my life since coming out of school 25 years ago.

Mr. Cooper. Twenty-five years' experience as an actuary and statistician?

Mr. Hudson. Yes, sir.

Mr. Cooper. You have not had experience and would not undertake to qualify as an economist?

Mr. Hudson. I would not.

Mr. Cooper. Has this plan had the consideration of and has it been analyzed by any of the economists of the country that you know of?

Mr. Hudson. Yes; it has been analyzed by a number of the economists that I know of; but there is one factor of the plan that is overlooked and that is that this is, strictly speaking, gentlemen, an annuity plan. There is nothing else to it. The life-insurance companies base their annuity charge upon the expectancy of life. This plan proposes basing the charge upon th revolution of the dollar rather than the individual.

Mr. Cooper. I believe you will agree there is a great field for very careful study and analysis here.

Mr. Hudson. Oh, indeed, indeed.

Mr. Cooper. I believe you, in line with your very frank statements here will also agree that this should have the most careful consideration of experts who are qualified to analyze it in that field.

Mr. Hudson. Yes.

Mr. Cooper. So far as you know that has not been done?

Mr. Hudson. I think it has been attempted.

Mr. Cooper. But not completed?

Mr. Hudson. But more or less as ridicule rather than a real attempt to analyze it. I think you must bear this in mind, Mr. Cooper, please, and I want to state this fact, why I was drawn to Dr. Townsend's plan. I thought it was the most silly, ridiculous thing I ever heard of until 4 months ago. But I never allowed a mathematical problem to down me, and I want to work on it. I discovered that it is just as possible to base a correct actuarial charge upon the turning of that dollar as it is upon this human life. Thereafter, what work I have done for the plan has been gratis. I have not received one penny for it, nor have I made any charges.

Mr. Cooper. I assume, then, of course, you are a licensed actuary?

Mr. Hudson. I am, for 25 years.

Mr. Cooper. And a member of an actuarial society or organization?

Mr. Hudson. None at all.

Mr. Cooper. What insurance company is it with which you have been connected as an actuary?

Mr. Hudson. None.

Mr. Cooper. But I understood you to say that for 25 years you have been an insurance actuary.

Mr. Hudson. And statistician; yes. But I have no immediate connection as an actuary for any company at the present time, nor have I ever had.

Mr. Cooper. You are not employed by or connected with any company?

Mr. Hudson. No, sir; but I have been in the actuarial work and the actuarial service.

Mr. Cooper. I probably did not understand, but you mean just practicing your profession?

Mr. Hudson. Yes, sir.

Mr. Cooper. For anybody who wants to employ you?

Mr. Hudson. Yes, sir.

Mr. Cooper. But not employed by or connected with any insurance company?

Mr. Hudson. No, sir.

Mr. Cooper. More or less an independent operator?

Mr. Hudson. There are thousands of them.

Mr. Cooper. One other question, if I may, please, sir. That is, you realize, of course, the tremendous increase of the amount of money involved here over the present revenues of the Government, do you not? You know what the present total revenue of the United States Government is, do you not?

Mr. Hudson. You mean the national income?

Mr. Cooper. No; I mean the revenue.

Dr. Townsend. The tax revenue.

Mr. Hudson. Oh, yes; the tax revenue.

Mr. Cooper. The tax revenue of the National Government. You are also familiar with the revenues of the State governments and municipalities, I assume?

Mr. Hudson. Somewhat. I am quite familiar with my own State.

Mr. Cooper. You know that the sum contemplated here in order for the Federal Government to be able to pay these pensions and

assume this financial responsibility is many times the present total revenue of the Government, do you not?

Mr. HUDSON. Yes.

Mr. COOPER. You realize that?

From a practical angle, what are we going to use for money to pay all this?

Mr. HUDSON. Such time as business revives?

Mr. COOPER. Yes. Now, what about that?

Mr. HUDSON. Mr. Cooper, if the Government provided the first month's pension, thereafter there would not be any necessity of making any other provision.

Mr. COOPER. Have you carefully considered that statement?

Mr. HUDSON. I think I am quite correct in making that statement.

Mr. COOPER. Do you believe in 1 month's time there is going to be——

Mr. HUDSON. Possibly not in 1 month's time.

Mr. COOPER. In 1 month's time there is going to be such a tremendous increase in the volume of business in this country that this plan would be absolutely assured from that time on?

Mr. HUDSON. If you take your low of 1933, you are safe in saying that, because of the fact——

Mr. COOPER. I mean, take the situation just as we find it.

Mr. HUDSON. Yes, as it is today.

Mr. COOPER. Right today, in this country of ours.

Mr. HUDSON. I think inside of 3 months the plan would be self-liquidating.

Mr. COOPER. I understood you to say just now 1 month. Which is it, 1 or 3?

Mr. HUDSON. I would say, to be safe, if you wanted to pin it right down, 3 months.

Mr. COOPER. That would take about 6 billion dollars, would it not?

Mr. HUDSON. No; it would take 4½.

Mr. COOPER. Four and one-half billion dollars?

Mr. HUDSON. Yes.

Mr. COOPER. To operate it for 3 months?

Mr. HUDSON. Yes.

Mr. COOPER. Then you say there could be no doubt, no doubt whatever, that from that point on it would be absolutely successful and there could not be any question about its success?

Mr. HUDSON. In my opinion; yes. But bear in mind that your Government has had 3 months in which to collect the tax, and the tax collections would be much greater than your 4 billion.

Mr. COOPER. So you think then that 3 months would be all that would be required——

Mr. HUDSON. I think it would be ample.

Mr. COOPER. To place this on an absolutely safe basis?

Mr. HUDSON. Yes; I want to qualify that statement, and I want to bring it back to the month. I think if the United States Government financed the first month and started the tax collection, the likelihood is that the tax collection would be at least 33⅓ percent within 30 days, because you have to bear in mind that when you start out your billion and a half dollars and they turn 34 times, it produces a lot of money.

Mr. COOPER. Then you are back to your original statement that 1 month would be sufficient to insure the success of the system?

Mr. HUDSON. I think it would prove itself; yes.

Mr. COOPER. Just one other thought, if I may. I do not want to detain you unduly, but I am seeking information as far as possible.

Mr. HUDSON. That is all right.

Mr. COOPER. That is on this question of this tremendous advance in the cost of living and the prices of everything that the people of the country have to buy. I cannot for the moment forget the vast population in this country under 60 years of age, but have some concern about all of those people who do not get the $200 per month. What is going to happen to them, just on the bais of a fair, frank statement? What in your opinion is going to happen to those people?

Mr. HUDSON. The greatest thing in the world. It is not going to hurt those people. They are going to be benefited. You are not going to hire a man for $75 or $90 a month or $2 a day, which you have been doing heretofore. We are going to have everything advance in keeping with the advancement in commodity prices.

Mr. COOPER. But that is what he is getting now.

Mr. HUDSON. Yes.

Mr. COOPER. How long in the future is that coming when he is going to get double the salary he is now getting?

Mr. HUDSON. Well, that "double" is quite a sum of money, now, because the tax would not require any doubling of the salary.

Mr. COOPER. I understood you to say the man getting $75 would get $100 to $150.

Mr. HUDSON. We hope to live to see the day after the adoption of this plan that the minimum wage would be $200 a month.

Mr. COOPER. $200 a month minimum wage in the country?

Mr. HUDSON. I think it should be.

Mr. COOPER. When in your opinion would that time be?

Mr. HUDSON. Possibly a year to 18 months.

Mr. COOPER. You think within a year to 18 months that would be accomplished?

Mr. HUDSON. I think it could. In other words, Mr. Cooper, when you remove from the working field that great horde of workers, bear in mind that you have not killed their consumptive power, and the man who steps up into their place is a producer as well as a consumer.

Mr. COOPER. Yes; I understand all that, but what is going to be happening to him during that year or a year and a half?

Mr. HUDSON. They are going to be working. As soon as you start your retirement, as soon as you start retiring the aged, you are going to be creating vacancies right down the line.

Mr. COOPER. Yes; but are they going to be working at sufficient salaries and wages to be able to meet this tremendous increase in the cost of the things they have to buy?

Mr. HUDSON. I think you are enlarging upon the cost of the increase at once in commodities beyond any—I think you are too high.

Mr. COOPER. My only reason for a thought along that line is, when I see the sum of $1,200,000,000 out here——

Mr. HUDSON. Of business.

Mr. COOPER. I cannot keep from feeling that there is going to be a tremendous increase in the prices of everything to roll up that volume of business in this country.

Mr. HUDSON. Will you not agree, then, that everybody was working that wanted to work in the years 1928 and 1929, and do you not

realize that living costs were less in 1929 than they were in some of our down years? In which year was the worker the best off? If I have a dollar in my pocket and shoes are selling for $3 a pair, I am still $2 away from a pair of shoes. But if I have work and $3 in my pocket, I can purchase the pair of shoes. The one thing that is wrong with our present system is not overproduction, but rather underconsumption.

Mr. Cooper. That may be all true, but in 1929, what was the total volume of business in this country?

Mr. Hudson. Twelve hundred billions, approximately.

Mr. Cooper. What is the basis for your figures on that?

Mr. Hudson. I have three sources of information; three sources of statisticians.

Mr. Knutson. Would you put into the record the three sources?

Mr. Hudson. Yes; I have it right here, in your record.

Mr. Knutson. All right, thank you.

Mr. Vinson. Referring to your figure of 1930, of those above 60—I believe you said 10,385,000?

Mr. Hudson. Something like that.

Mr. Vinson. How many persons above 60 are now gainfully employed?

Mr. Hudson. According to the 1930 census, there were approximately 4 million.

Mr. Vinson. Approximately 4 million?

Mr. Hudson. Yes.

Mr. Vinson. How many persons in the whole United States at this time are unemployed?

Mr. Hudson. Approximately 10 million.

Mr. Vinson. Then the payment of pensions to those above 60 years of age would take out of employment only 4 million, and you would still have 6 million unemployed?

Mr. Hudson. I do not think you can take out the whole 4 million. Say 3 million that will retire.

Mr. Vinson. If you take out only 3 million, then you would have 7 million unemployed, would you not?

Mr. Hudson. Correct. But the very moment that you take out the 7½ million pensioners and they begin functioning as pensioners, the production of commodities would become so great that for each pensioner you retire on $200 a month there will undoubtedly be created more employment.

Dr. Townsend. A job for each one.

Mr. Hudson. In other words, if it created a job for each of your pensioners, you have created employment for 7½ million men. That is allowing man for man.

Mr. Vinson. You have 6 million of those above 60 that are not gainfully employed, according to your own statement.

Mr. Hudson. That is true.

Mr. Vinson. When you pension them you have not taken those out of employment. In other words, you have not taken them out of a job that the man who is under 60 may replace them in.

Mr. Hudson. That is very true, Mr. Vinson, but they are going to become commodity users, are they not? And who is going to manufacture the goods and the merchandise that they consume? If you go out today and buy $200 worth of desk per day or per month,

you have created full employment for one man. You would not mean to tell me that it would not take a good workman to make a good desk.

Mr. VINSON. I do not just get the idea of the working man creating this $200.

Mr. HUDSON. The working man is not creating it.

Mr. VINSON. He may create an article that would sell for $200, but as I understand it, the $200 is to be paid out of the Federal Treasury.

Dr. TOWNSEND. It will produce the wealth.

Mr. VINSON. Yes, but you do not get the hundred percent of the wealth payable to the pensioner.

Mr. HUDSON. Mr. Vinson, you likely misunderstood me. I said this, that if you pensioned 7½ million aged people today and they started spending their $200 a month for commodities, how many men would it take to manufacture those commodities?

Mr. VINSON. That is a question I am asking you.

Mr. HUDSON. I say it would take from 5 to 7 million.

Mr. VINSON. If it took 7 million you would have practically 100 percent employment.

Mr. HUDSON. You would; yes. If it took man for man, you would reduce your employment 100 percent.

Mr. COOPER. Take for illustration an old person who has never been used to anything like $200 a month. Suppose in 1 month or 2 months they buy all the things that they think they can use. Then what are they going to do with the money the rest of the time?

Mr. HUDSON. Mr. Cooper, if an old couple or an old gentleman wants to live decently and cannot consume and do good with $200 a month, then I feel sorry for him.

Mr. COOPER. You have to consider this from a practical angle.

Mr. HUDSON. Yes; that is true.

Mr. COOPER. Just assume that many, many aged people have never been used to any such sum as that, have never had the experience, never been trained to use that amount of money. Of course, for the first month or two they can think of things they would like to have. Then what are they going to do with the money after that, when they have never had any training or experience in using that amount of money. Can you not appreciate that that would offer some difficulty?

Mr. HUDSON. No, I cannot, Mr. Cooper, that it should offer any difficulty at all.

Mr. COOPER. You do not think there would be any difficulty there?

Mr. HUDSON. There are many old people in this country that have never enjoyed $200 a month, thousands of them, hundreds of thousands of them. Of course, some of them might drop dead after the passage of this bill, I will agree to that. But they do not need any training on how to spend that $200 a month. People are pretty well trained on how to spend money, if they have the money to spend. You just try them out.

Mr. COOPER. You do not anticipate there would be any practical difficulty at all?

Mr. HUDSON. None at all.

Mr. COOPER. Along that line?

Mr. HUDSON. And if there were, then he should go around the block and hunt up that poor widow that this gentleman spoke of over

here, with four or five children, and say, "All right, little lady, I will take care of the babies from now on."

Mr. COOPER. That would be all right under this plan?

Mr. HUDSON. Absolutely. He can clothe them and feed them, if he sees fit to do so.

Mr. COOPER. Is not that limited to a percentage of this bill?

Dr. TOWNSEND. No; commodities; buy commodities.

Mr. HUDSON. That is limited to charitable or organized institutions.

Mr. VINSON. Institutions of charitable, church, and fraternal organizations.

Mr. HUDSON. Yes; but the widow with the children is neither of those.

Mr. KNUTSON. She is charity.

Mr. COOPER. That would be charity.

Mr. HUDSON. Yes; I guess you are right about it. Well, he could spend $30 a month there.

Mr. COOPER. That is limited to 15 percent.

Mr. HUDSON. Yes.

Mr. COOPER. That would be $30.

Mr. HUDSON. That would be $30.

Mr. COOPER. Yes. You think then there would be no practical difficulties encountered along that line?

Mr. HUDSON. None at all, Mr. Cooper.

Mr. COOPER. What do you estimate the expenses would be for the administration of this plan?

Mr. HUDSON. Of course, that is a question that would have to be answered by the Government. I can tell you this, our sales tax in the State of California is limited to 2 percent and it has cost 1.7 to operate so far.

Mr. KNUTSON. 1.7 percent?

Mr. HUDSON. Yes.

Mr. COOPER. It has cost 1.7 percent to collect and administer a 2-percent tax?

Mr. HUDSON. 2½ percent.

Mr. COOPER. A 2½-percent tax?

Mr. HUDSON. Yes.

Mr. COOPER. Do you mean to imply then that you think it would take 1½ percent——

Mr. HUDSON. I do not.

Mr. COOPER. For instance, to administer this?

Mr. HUDSON. I do not; because the State had no machinery set up to collect their taxes with. They had to make the house all over, while your Government had the tax ability to do so and has it in operation.

Mr. COOPER. Yes; but you do not mean to say the Federal Government has the machinery or the administrative force necessary now to administer any such plan as this, do you?

Mr. HUDSON. I would say that they did not; no. I think they would have to strengthen it. But it is costing the Government very little to collect their 1 percent of the gasoline tax.

Mr. COOPER. All of this administrative expense would have to be paid for, would it not?

Mr. HUDSON. Oh, yes.

Mr. COOPER. That would all have to be paid for?

Mr. HUDSON. Yes.

Mr. COOPER. Certainly the collection of the gasoline tax at the source is not a fair illustration of the tremendous administrative difficulties that this plan would involve.

Mr. HUDSON. That is very true, Mr. Cooper, but that gasoline tax—our tax is going to be collected at the source, too, of the gasoline. Many of your other taxes are, too.

Mr. VINSON. Are you correct on your gasoline tax statement? You collect one tax at the source, but then when you have your transaction and retail it, you collect it again.

Mr. HUDSON. Oh, yes; that is true. There are several sources, but the sources are all easy to get at.

Mr. VINSON. How many inspectors do you think would be necessary to supervise the administration of this plan?

Mr. HUDSON. I am not familiar with the subject, Mr. Cooper. It would just be a guess on my part. That is, like my attempting to answer a legal question.

Mr. COOPER. It would involve transactions between all the citizens of the whole United States?

Mr. HUDSON. Oh, I agree with you there. I agree with you there.

Mr. COOPER. I am confident you would be fair enough to agree there would be a tremendous amount of administrative expense. There could not be any doubt about that, could there?

Mr. HUDSON. I do not think so.

Mr. KNUTSON. Do you think it will be possible to take up all the unemployment slack through the administration of this measure?

Mr. HUDSON. Yes; I do.

Mr. KNUTSON. I mean, in this administration. Could you put all the idle to work administering this bill?

Mr. HUDSON. No; I did not get what you meant. I do not think there would be any objection to taking up some of the unemployment there.

Mr. KNUTSON. Is it your contention that the greater the volume of the turn-over and the velocity of money, the greater the prosperity?

Mr. HUDSON. I certainly do.

Mr. KNUTSON. If that be true, why was not Germany prosperous in 1921 to 1926? For instance, when I was over there I paid 780,000 marks for breakfast which would mean $187,500 in American money under normal values. That is velocity; that is turnover. It is also inflation and that is what I fear most in your plan. What would $200 per month amount to under such conditions? Nothing!

Mr. HUDSON. No; that has nothing to do with turnover.

Mr. VINSON. It has nothing to do with this?

Mr. HUDSON. No.

Mr. VINSON. I do not know why you are proposing this. You are proposing to issue at least 18 billion dollars' worth of new money.

Dr. TOWNSEND. No.

Mr. HUDSON. No; no.

Mr. KNUTSON. Of course, you will have to do it. You must have a medium of exchange.

Mr. HUDSON. All right. I contend this: If this country was able to do in the years of 1928 and 1929 the vast volume of business that it did do, and then fall down from 1929 to 1933 and 1934, less than 50 percent, the velocity has a whole lot do with it.

Mr. KNUTSON. My dear sir, you would have to issue new money under your plan.

Mr. HUDSON. We do not need any new money. We have plenty of money.

Mr. KNUTSON. If I am given $200, my money looks exactly like the money the wage earner gets. I have to spend mine, but he does not.

Mr. HUDSON. Yes.

Mr. KNUTSON. How are you going to differentiate between the money that is given me for a pension and the money that is given this man as a salary?

Mr. HUDSON. We do not want any differentiation.

Mr. KNUTSON. What is to prevent me from hoarding it?

Mr. HUDSON. Your pension money?

Mr. KNUTSON. Yes.

Mr. HUDSON. My dear friend, when you take the oath that you will spend, we take your photograph and qualify you, and your thumbprint—assuming that it worked out in that way—and you are handed a check book upon the bank in which your $200 would be drawn upon. We will ask you to surrender the check stubs at the end of 30 days, and have the bank check it.

Mr. VINSON. And if you do not spend the money, send you to the penitentiary?

Mr. HUDSON. Not only send you to the penitentiary, but cut off your pension. How foolish you would be; how foolish any old person would be.

Mr. KNUTSON. Suppose I gave it away?

Mr. HUDSON. We will never give you any more. We will cut you off, because you have taken an oath to spend for commodities in the commodity group.

Mr. KNUTSON. As I see it, we are now on one of the weakest places in this scheme.

Mr. HUDSON. You mean that is a weak point?

Mr. KNUTSON. Yes.

Mr. HUDSON. I cannot see anything weak about that.

Mr. COOPER. I understood you to state a short time ago that this whole plan is based upon the mechanics of money, the velocity of money.

Mr. HUDSON. Of the dollar, yes.

Mr. COOPER. Do you know whether any consideration has been given by any of the outstanding authorities of the country on those subjects to this plan?

Mr. HUDSON. I do not think there has, Mr. Cooper, because this plan has developed from nothing, from a nickel, you might say, and they have had no money with which to hire experts. On the other hand, the experts that have been hired, so to speak, to laugh at this proposal, have not gone into it.

Mr. COOPER. How much money has the organization for which you speak raised, all told?

Mr. HUDSON. In the last financial statement, approximately $40,000.

Mr. COOPER. Is that the entire amount?

Mr. HUDSON. That is the entire amount, as I understand it.

Mr. COOPER. For the whole time that this plan has been worked on?

Mr. Hudson. That is what I understand, Mr. Cooper, and that is what the audit shows.

Mr. Cooper. That audit shows that the entire amount of funds that have been received by this organization will not exceed slightly more than $40,000?

Mr. Hudson. Yes, sir.

Mr. Cooper. I understand that is correct, from you, is it, Doctor?

Dr. Townsend. That is correct.

Mr. Cooper. Getting back to the question—you led me off into that inquiry—that I was presenting to you, do you think it would not be fair and the proper thing for this plan to be analyzed by the outstanding authorities on the question of velocity of money and what is commonly called money mechanics?

Mr. Hudson. I see nothing wrong with that.

Mr. Cooper. You think that ought to be done, do you not?

Mr. Hudson. I see nothing wrong with that.

Dr. Townsend. May I have a word here? What are economists? On what do they base their conclusions? On precedent, do they not? Gentlemen, we have arrived at an unprecedented age, something the world has never seen before. This new age is presenting new problems. We have been enabled by the ingenuity of our people, and their inventiveness, to arrive at an age where we can produce infinitely greater abundance than we can consume under our present system. The economists do not know anything more about that than you or I, not in the least, because this is a new condition. It is going to require a new solution. Our great ability to produce wealth is here, due to the machine and the power of nature applied to the machine, something that the world has never known before. It is only about 25 years since mass production began in this country.

We had no knowledge of this new situation until it came upon us suddenly. The Great War expedited mass production terrifically. We found immediately after we got into the war that we could not only supply ourselves with great abundance, but we could supply the rest of the world, and we did it. We did it with the least amount of labor that we ever used in the world, because 4,000,000 of our best laborers were abroad and could not be used.

This situation today, with our ability to produce away up here and our ability to consume down here [indicating] is what is ruining the country. Here is the great army of unemployed in between.

Gentlemen, we have to face the fact that they will never again be employed. The machines have made that utterly impossible. They cannot be employed.

Now, what are we going to do? What shall we say of a government that persists in maintaining a great mass of humanity in a pauperized state, when we are able to produce in superabundance? That is the new problem ahead of the world. We maintain that all citizens should be permitted to be useful. No class of them should be shoved aside as worn-out lumber. We say that this class of the aged can be made extremely useful to humanity in creating the market for goods which our present new ability has made it possible for us to produce. We cannot produce these goods and sell them unless we have the market. We have to put a class of our people in a position to make and maintain that market. There is only one class that we can all

agree upon as being the class necessary to do that, and that is the class of the aged. So let us start with the age of 60. It will not be 5 years until we will reduce it to the age of 45 or 50, because machine production is going to increase infinitely from this time on. We have never known what machine production is going to do for this world, but we are on the verge of something tremendous. Millions of inventions are ready to go the minute the market is assured for the products that those inventions will produce.

Gentlemen, this is a new age. Gentlemen, this is the last Congress in the United States that is going to uphold the old economic system. Do not forget that for a minute. I hope it will be the first Congress to inaugurate a new system whereby the distribution of wealth may be made more equitable. It is going to be done.

We believe here is a rational method of procedure: Retire a certain number of elderly people and make of them the means whereby we may have a steady, dependable market, so that we may never have these depressions, this great army of unemployed, again. That can be done. That is within human ingenuity. Certainly, if we have the ingenuity and the brains to produce with these new mechanical means of ours, we have the ability to distribute equally just as well or much more so than we ever have had before. I would like to see a situation come out of this whereby there would be no violent turnover of American institutions. We can do that if we will use common sense. If we neglect things and let them drift as they have for the past 5 years, we are never going to have an opportunity to salvage anything that we hold dear in this Government.

The CHAIRMAN. Giving you credit for due intelligence, which we all gladly concede that you have, how many equally intelligent, equally patriotic, and equally well-informed people are there in this country that have panaceas entirely different from yours, and just as certain their schemes will solve this economic difficulty as you are certain yours will solve it.

There are many who have had an equal opportunity to study the problem, who have equal surroundings and environments, who have had the benefit of the advice of economists and all facilities and all avenues of information that are available to the human mind, who have come to the firm conclusion, which they believe as strongly as they believe in death and eternity, that they have a panacea for the ills of this country. How, then, can we differentiate between those schemes—and I am not talking about yours, but about these new schemes—that are so religiously held?

Dr. TOWNSEND. I have 20,000,000 of people who have sanctioned my plan. They are increasing by the hundreds of thousands recently.

The CHAIRMAN. They are sanctioning it because you will give them something. Surely you will not contend that is any evidence of its fairness. They have not come here and heard this discussion. You have not gone into their homes and explained to them, explained to somebody who has a counter-opinion——

Dr. TOWNSEND. We have done that very thing.

The CHAIRMAN. They have not heard all the facts and the arguments pro and con. They have just had the lure of $200 to each pensioner, $400 to a family, dangled in their faces. Of course, naturally, they grab at that.

Dr. TOWNSEND. They are not so dense that they cannot see that this expenditure of money is going to create a tremendous——

The CHAIRMAN. You would not say that each one of the people who sanctioned this scheme could, upon their own initiative, their own knowledge, their own understanding, and their own ability, work out a scheme to solve our economic problems? And if not, were they in a position to pass upon yours?

Dr. TOWNSEND. Now, look here. That argument of yours——

The CHAIRMAN. That is not an argument. I am just asking you.

Dr. TOWNSEND. That suggestion of yours entails an entire lack of intelligence on the part of the American people.

The CHAIRMAN. Not at all. But you would not say that every person who has signed your petition has a knowledge of cause and effect and of all the things connected with this question and has given the situation sufficient study to pass upon a great economic question like this. That is no reflection upon their intelligence at all; not in the slightest. But do you think they have had the opportunity and that they possess the information and the knowledge to pass upon the soundness of a great economic problem like this—all of them? If somebody else came along with an entirely different project, an entirely different scheme, which you would say was unsound, and offer them $200 as you have, would they not take to that just as they have to yours?

Dr. TOWNSEND. No; they would not.

The CHAIRMAN. What evidence do you have they would not?

Dr. TOWNSEND. For the simple reason that they can see the sense of this plan. They realize as well as we do that it is volume of business that we must have—rapidity of turn-over.

The CHAIRMAN. What about the great number of people that have studied it carefully that do not see the sense of it, that are not direct beneficiaries, that are patriotic, that have the welfare of the country at heart, that want to preserve our institutions and save them for posterity? What about the great number of people who do not see the sense of it, or that see the nonsense of it? What are you going to do with them?

Dr. TOWNSEND. They are going to be converted to our point of view, and they are by the hundreds of thousands weekly.

Mr. COOPER. Doctor, just to be frank and fair, as I am sure you want to be, you do not undertake to say that all of these people to whom you have referred have studied and analyzed this bill that is presented to this committee for consideration, do you?

Dr. TOWNSEND. Not any more than they have any other legislative problem.

Mr. COOPER. All right.

Dr. TOWNSEND. But it is a simple problem that a child of 10 could understand if they took the trouble.

Mr. COOPER. Are we correct in assuming that you are here advocating that this committee favorably report the McGroarty bill as the old-age pension section of the administration measure of the consideration? That is what you want us to do?

Dr. TOWNSEND. Certainly.

Mr. COOPER. You are satisfied with this bill as it now stands?

Dr. TOWNSEND. I have no doubt but that the bill would be revised. I had no doubt when it was presented that the bill would be.

Mr. COOPER. As the bill is presented to us?

Dr. TOWNSEND. The essential features of it; yes.

Mr. COOPER. That is, you are satisfied with it, and that is what you are advocating?

Dr. TOWNSEND. With the essential features of the bill, and amendments, I expect.

Mr. COOPER. What would these 20,000,000 people of whom you speak think about revising it? In what respect would they want it revised or changed in order to meet their views?

Dr. TOWNSEND. Any change which does not affect the essentials of it, the method of raising the money and the amount of the money paid to the pensioners. Those are not going to be changed.

Mr. COOPER. You insist that the $200 a month to everybody over 60 years of age could not be changed?

Dr. TOWNSEND. Yes, sir.

Mr. COOPER. As the bill now stands—as it is presented to this committee for consideration—if you were sitting in the seats that we occupy, would you vote to report this bill, and then, as a Member of the House of Representatives, vote to pass it?

Dr. TOWNSEND. I would, with certain amendments—certain corrections which have necessarily been left to the Secretary of the Treasury and which were expected to be left to the committee passing upon the bill.

Mr. COOPER. You admit, then, that the bill should be amended and changed?

Dr. TOWNSEND. Certain elements in it, yes; certain features of it.

Mr. COOPER. Then you agree with Mr. Hudson when he very frankly responded to me by saying that if he occupied the position of responsibility as a member of this committee he would not vote for this bill as it now stands?

Dr. TOWNSEND. I cannot speak for Mr. Hudson.

Mr. COOPER. You speak for yourself. Would you do it?

Dr. TOWNSEND. I would if there were no other way of adjusting the affairs of this country. I would rather than see it drift along the way we have for the past 6 years—unemployment increasing, poverty increasing.

Mr. COOPER. Just one more time, if I may, to present the plain question. I expect the frank answer which I am confident you will give.

As the bill now stands presented to this committee for consideration, would you vote for it as it is now, or not?

Mr. TOWNSEND. I would.

Mr. COOPER. You would. Then you do not agree with your own associate who appeared before this committee along with you?

Mr. VINSON. You say that you recognize that there should be certain amendments. To what amendments do you refer, Doctor?

Dr. TOWNSEND. Those amendments that you have mentioned here, perhaps, which you say would conflict with the Constitution of the United States. I have not gone into the constitutionality of the method of raising this tax, of imposing this transactions tax, but I do not believe that it is unconstitutional in any feature.

Mr. VINSON. You say that you favor certain amendments. To what amendments do you refer?

Dr. Townsend. I would refer to any amendment which would make the collection of the tax, the imposition of the tax, easier and more adaptable. I would not alter in any respect the essential features of the bill.

Mr. Vinson. You have no particular amendment that you would suggest that should be incorporated in the bill at all?

Dr. Townsend. No; but such have been suggested here today.

Mr. Vinson. What ones of those do you favor?

Dr. Townsend. I do not know that there are any of them that I favor particularly.

The Chairman. You just now mentioned, if I did not misunderstand you, Doctor, that you would favor such amendments or changes as the Secretary of the Treasury might deem advisable. What discretion did you mean to leave for the Secretary of the Treasury?

Dr. Townsend. The setting up of the detailed arrangement for collecting the tax, setting up the machinery.

The Chairman. There would not be any change in the fundamental principles of the bill?

Dr. Townsend. No.

The Chairman. You just mean administrative changes.

Have you any other witnesses that you want heard, Doctor?

Dr. Townsend. None that I know of.

Mr. Hudson. May I say this:

Mr. Cooper, in reference to the administration clause, you did not understand that it took 1.7 percent for the State of California to collect a 2.5-percent tax? It is 1.7 of the total sum collected. You understood that, did you not?

Mr. Cooper. I understood your statement to be that the administrative expense was 1.7 percent.

Mr. Hudson. 1.7 percent.

Mr. Cooper. Of a 2.5-percent tax.

Mr. Hudson. No; of the total tax collected. We collected $90,000,000.

Mr. Cooper. I am glad to have you clear that up.

Mr. Hudson. I thought you might have misunderstood it.

Mr. Hill. Dr. Townsend, we have outstanding currency at this time in the amount of about five and one-half billion dollars. You recognize the principle, do you not, that a dollar turning over 10 times does as much work as $10 turning over once?

Dr. Townsend. Yes.

Mr. Hill. In estimating the volume, that is, the available amount of dollars in commerce, you take into consideration both the volume of the money, the amount of it outstanding, and the velocity of its circulation. In estimating how much money we have for use, you multiply the volume by the number of times it turns over in a year. If you take five and one-half billion dollars and multiply it by 500—you said you hoped it would turn over 528 times—you would have $27,500,000,000, because there is that much money available for us. And when you superimpose upon that the usual amount of credit that circulates as cash, which is ordinarily to be considered about 9 for 1, you would have an estimate of the volume of circulating money and circulating credit which circulates as cash with which to do business.

With all of that vast amount of money, you can see that the supply of money would be very, very large. Would that not have a tendency

to cheapen very materially the purchasing value of the dollar, and would it not defeat the end which you are seeking here, of placing purchasing power in the hands of the people, if you put that great amount of circulation both of cash and credit into the channels of commerce?

Dr. Townsend. There would not be any 500 turning, of course. Every turnover, however, is going to increase the production of wealth in this country. The distribution of that wealth will become easier and simpler as production increases. It need not entail the use of any great increase of the cost of commodities at all, for the simple reason that there are tendencies all the time at work to prevent inflation. One of the chief is competition, and the other would be the mass production entailed by this new volume of credit and money. We will produce infinitely cheaper all the time as we go along into the mass production of goods. The tendency of mass production is always to lower prices.

Mr. Hill. That was not the result in Germany. It made the mark absolutely worthless. While they had the volume too large, it made the money worthless.

Dr. Townsend. That was printing press money and nothing else That was not credit. That was money that they ran off in the printing presses. We do not propose to do anything of that sort. We do not propose to increase the number of dollars by one. Even Mr. Goldenweiser, of the Federal Reserve bank, states that this plan will have a deflationary effect upon prices. I believe him.

Mr. Hill. You mean, make commodity prices cheaper?

Dr. Townsend. It will have a tendency to reduce prices.

Mr. Hill. That is the thing you are seeking to avoid, is it not? You want to increase your commodity prices.

Dr. Townsend. I mean have a tendency to hold prices down, not to inflate them.

Mr. Hill. Which end of this argument are you going to take?

Dr. Townsend. I do not take either. I can afford a happy medium, a happy mean. We know that we can stand a 100 percent rise in prices.

Mr. Hill. Do you not recognize the fact that the more money you have the higher commodity prices will be?

Dr. Townsend. Not always; not necessarily.

Mr. Hill. All right. Then if we do not agree on that, there is no use to argue.

Dr. Townsend. We have had a 100-percent tax, you might say, on commodities in this country, if price means anything, because during war times we paid 100 percent on the average higher than we are paying at the present time, and we liked it. It gave us a tremendous new prosperity. Now, price—what does it mean? It does not mean a thing if you have the money with which to buy, and we propose to see that the people get it.

Mr. Hill. Suppose the price of wheat should be $5 a bushel, and you were getting $200 with which to buy. You could buy one-fifth as much with $200 as you could if wheat were a dollar.

Dr. Townsend. If wheat goes up, then wages go up. We are going to have a $10 minimum wage in this country.

Mr. Hill. That makes the cost of their commodities higher, and your $200 would buy less and less as the cost rose.

Dr. Townsend. They will rise only to a certain height.

Mr. Hill. That is all.

The Chairman. Right there, Doctor, if costs should rise very considerably, unexpectedly to you, then would you favor increasing the amount of pension that each of these people should receive?

Dr. Townsend. Why, no.

The Chairman. If it takes $200 now to take adequate care of supporting them, suppose the price of the necessities of life increased; then why should they not have just twice as much pension?

Dr. Townsend. But it will not do anything of the sort.

The Chairman. But suppose it should do that?

Dr. Townsend. Why suppose?

The Chairman. Then would you favor increasing the pension?

Dr. Townsend. Why suppose anything of the sort?

The Chairman. It is a matter of opinion.

Dr. Townsend. It is a matter of opinion.

The Chairman. You would not confine it all strictly to your opinion?

Dr. Townsend. You may believe that it will advance. I do not.

The Chairman. In the event it should increase the cost of living, 50 percent, would you give a 50 percent increase in the pension? I am not trying to tie you up. I just want your viewpoint.

Dr. Townsend. What a simple thing it will be if we find that this——

The Chairman. That takes $100 to be added, now.

Dr. Townsend. If it is too much, if it has a tendency to run the price too high, what a very simple matter it would be to reduce the number of pensioners or to reduce the amount. This is an adjustable plan. There is absolutely nothing iron-clad or fixed about it.

The Chairman. You could never agree on that, once you got started.

Dr. Townsend. I know we should never agree to any reduction, because I know that this Nation has the ability to produce wealth to the extent that everybody, every soul in this land could afford to live on a standard of living of $2,500. That is David Cushman Coyle's assertion. He says that we could have $5,000 a year, each individual of us. And Stuart Chase is another authority for that statement, that we could have $2,500 a year income for every man, woman, and child in this country with our present ability to produce wealth. Why in Heaven's name should we not use this ability for the benefit of all?

The Chairman. Do you think you could make everybody prosperous by this bill?

Dr. Townsend. Certainly we can.

The Chairman. There has always been a large number of unemployed in this country, who are not willing to work in honorable employment and who are not now engaged. We cannot take care of that class of people by a system of this kind, can we?

Dr. Townsend. We do not propose to alter the attitude of the human beings of this country at all. We are simply going to alter the monetary system of this country, so monopoly shall not take an undue share of the wealth, so that those who labor may have their share of it.

The Chairman. I think everybody would get in under that, if we could agree on the means.

Have you completed your statement?

Dr. Townsend. Yes, sir; I wish to have our report read into the record, however.

The Chairman. That will be done. If you wish to extend your remarks or make any supplemental remarks, you may do so.

(The matter referred to follows:)

The Townsend Old-Age Revolving Pension Plan

House Resolution No. 3977, known as the McGroarty bill, provides for:

An annuity of $200 per month to all citizens of the United States who have reached 60 years of age or over and who apply therefor and can qualify under section 2 of the bill.

Permanent recovery is the prime purpose of the plan and facts and conclusions are hereinafter presented in support of the plan under the following related subdivisions: (1) unemployment; (2) new purchasing power and revenue; (3) annuities; (4) stabilization of national income; (5) possible savings.

UNEMPLOYMENT

The facts are: There are 10,000,000 now unemployed (radio address Harry Hopkins). There are 20,000,000 now on charity and the number is increasing (radio address Harry Hopkins). There are 10,300,000 over 60 years (1930 census). There are approximately 4,000,000 over the age of 60 who are steadily employed (1930 census).

We conclude that: Assuming that only 3,000,000 aged now employed retire on pension, there will be created 3,000,000 jobs by filling these vacancies.

By eliminating aliens, disqualifying criminals, and taking account of those who are financially independent or do not wish to retire, we estimate the number who can and will qualify for the pension to be 7½ million.

The distribution of $200 per month to the 7½ millions of citizens who can qualify and who are, in proportion to the population, equally distributed throughout the entire country, will create such a demand for goods and commodities as to result in the necessity of employing 7½ millions who are now unemployed; thereby, employment will be given to 10½ million younger workers.

PURCHASING POWER AND REVENUE

When 7½ million citizens take an oath to and do spend $200 monthly an aggregate sum of 1½ billion dollars of purchasing power is added each month.

The average annual turnover per dollar for the past 5 years was 34 times (Dow-Jones).

Thus the 18 billion dollars forced into trade channels, multiplied by the average annual turnover of 34 times, produces 612 billion dollars of new business created by the pension roll. Add Federal Reserve bank debits for the low year of 1933, to wit, 303 billion 426 million and the total is 915 billion 426 million.

Therefore a 2 percent transaction tax upon the aggregate of 915 billion will produce, in revenue 18 billion 308 million, or 308 million more than required for the payment of pensions.

E. A. Goldenweiser, Director of Division of Research and Statistics of the Federal Reserve Board, before the Ways and Means Committee of the Seventy-second Congress, on May 2, 1932, stated: "The total volume of transactions in this country in 1929 was about 1,200 billions of dollars and it decreased by 1931 to about 600 billions of dollars. This is a decrease of 600 billion, largely due to decline in velocity."

If total transactions amount to 1,200 billion, the tax collections would produce 24 billion in revenue. This would create a suplus of 6 billion per year which would justify a reduction from the 2 percent tax as provided for.

Dow-Jones News, December 5, 1934, reports 1,165 billions of dollars in business in 1929; deposits in New York district member banks in October 1929 are reported at 13 billion 633 million and in October 1934 at 13 billion 500 million. From this recognized authority we quote the following:

"New York.—In October 1929, a deposit of $1 in a New York bank was being used fast enough to do $132.70 worth of work in a year. Last October, the same dollar was being called upon to do annual work of only $22.50. Although total deposits were approximately the same in 2 months, bank funds today are simply lying idle.

"Net demand deposits in New York district member banks in October 1929 were working at the peak rate of over $818,000,000,000 a year, but deposits in October this year, approximately the same total, were being called upon to do annual work of only slightly over $153,000,000,000. For the rest of the country, the figure has dropped to a little over $143,000,000,000 from something in excess of $347,000,000,000.

"Deposits in New York district member banks during October 1934, averaged $6,816,000,000 compared with $6,165,000,000 in October 1929, while the rest of the country showed $6,694,000,000 against $7,468,000,000 in 1929. The total this year was $13,500,000,000 compared with $13,633,000,000.

"FUNDS HELD IDLE

"But the employment of bank-deposit credit is lower today than for any time since the close of the World War.

"This is evidenced by figures of debits to deposit accounts, chiefly checks against these accounts, in 141 leading centers in the United States which show the number of times that a dollar of deposit credit is used, or turned over.

"It indicates that there is a potential volume of idle funds tied up in these 'inert' deposits awaiting an opportune time for use."

This illustrates the importance of Mr. Goldenweiser's statement when he said: "You cannot make up for velocity by volume, because velocity is so much more of a factor than volume."

We submit that the Townsend plan will increase the velocity of the dollar turn-over because of its forced spending feature.

Federal Reserve bank debits as reported in 1929 were $982,531,000,000 (authority, Federal Reserve bank).

Since the above figures are predicated on bank debits an additional 20 percent could be added with safety to the above figures for other transactions not clearing through banks.

When the pension fund for the first month is provided by the Government, the transaction tax will therefore replenish the pension fund which will revolve monthly in trade channels. Thus you have created a revolving fund.

The Townsend plan is in effect the involuntary collective purchase of retirement annuities. The transaction tax compels all to pay that all may benefit. The plan provides that every citizen 60 years of age or over may retire from gainful pursuits and accept a $200 per month pension or annuity for life. This amount must be spent within 30 days after its receipt. This tax is the citizen's premium for the purchase of said annuity and should not be considered lost, but rather as a savings for old age.

Insurance companies have been operating in our country successfully for over a hundred years and have been advocating the purchase of annuities by our citizens. Their charge is based and computed upon the expectancy of life, while the Townsend plan of computation is based upon the turn-over of the dollar, and is equally as sound.

NATIONAL INCOME

	Amount of income	Loss compared to 1929	Authority
1929	$83,000,000,000 plus		S. Doc. 124, 73d Cong.
1930	$70,000,000,000 plus	$13,000,000,000	Do.
1931	$54,000,000,000 plus	29,000,000,000	Do.
1932	$39,000,000,000 plus	44,000,000,000	Do.
1933	$40,000,000,000 minus	43,000,000,000	Associated Press reports.
1934, approximate	$45,000,000,000	38,000,000,000	Do.

The above table illustrates the fact that as compared to 1929, national income in a 5-year period has suffered a total loss of 167 billion dollars. Had the Townsend plan been in effect in 1930 to 1934, inclusive, during this 5-year period the cost in tax would have been 90 billions of dollars and our national income would never have fallen below 1929 income. Therefore cost of the plan of 90 billions of dollars versus loss of national income of 167 billions would show on the credit side 77 billion dollars. If the Townsend plan can avoid the continuance of such losses is it not worthy of consideration?

The Townsend plan does not tax the present national income, but the tax is based upon business transacted.

POSSIBLE SAVINGS

The savings to government, national, State, county, and municipal, under this plan will be manifold and too inclusive to be more than indicated here: (*a*) Decrease of public debt; (*b*) release of funds now expended in dole and wages; (*c*) release of funds now allocated to support commodity prices; (*d*) elimination of necessity of appropriation to many pensions, institutions, etc.; (*e*) discouragement of crime and illegal practices which an honest livlihood would tend to lessen.

For the first time in the history of our Government our citizens by the millions are asking to be taxed to purchase for themselves security, contentment, peace of mind, and the elimination now and forever of hardships, worry, privation, and fear from their declining years.

We are not asking for a dole or charity.

Our discussion has been based upon cold figures, while in the larger sense we need but reflect the broken spirits, despaired hopes, etc., which this depression has visited upon us, which are beyond all computation in dollars.

OLD AGE REVOLVING PENSIONS, LTD.
DR. F. E. TOWNSEND, *President.*
R. E. CLEMENTS, *Secretary.*

The CHAIRMAN. We hope the committee has given you adequate opportunity to express your views. We thank you for your appearance and the information you have given the committee. We thank you also, Mr. Hudson.

I would like to give you this little statement, Dr. Townsend, to remind you of the statement that I would like to have you put in the record as to the receipts and the expenditures.

Mr. HUDSON. May I correct my remarks?

The CHAIRMAN. Yes; you will have that privilege.

The Chair offers for the record a letter from Dr. Edwin Witte, with some reports from committees that have made a study of this legislation, which, without objection, will be placed in the record at an appropriate place.

(The documents referred to are as follows:)

COMMITTEE ON ECONOMIC SECURITY,
Washington, February 2, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman Committee on Ways and Means,
House of Representatives, Washington, D. C.

DEAR JUDGE DOUGHTON: We understand that members of your committee have expressed a desire that we should file with you a copy of the report of the Advisory Council to this Committee, together with the several supplemental statements which were presented to our Committee by members of the Advisory Council, subsequent to the filing of its report. We, accordingly, are transmitting to you a copy of the report of the Advisory Council and of each of three supplementary statements filed by individual members of the Council. Likewise, we are transmitting, for purposes of the record, a copy of the report on unemployment insurance of the other major advisory group to this Committee, the Technical Board.

To clarify a misunderstanding which may have arisen due to the many different reports to which reference has been made in your hearings, permit us to say that under the Executive order creating the Committee on Economic Security, it alone was expected to make any public report. This Committee, whose membership appears on this letterhead, made a unanimous report which was presented by the President to the Congress in his special message of January 17, 1935, with his recommendation that the legislation recommended (which is incorporated in the economic security bill) be enacted into law as promptly as is consistent with thorough consideration.

The Committee on Economic Security has been assisted by 10 advisory groups. Eight of these were organized by the Committee to give it advice on special problems. Two of the advisory groups have been consulted on all subjects dealt with by the Committee. The first of these is the Technical Board of Economic Security, which throughout has assisted the Committee in the actual working out of the program. The other is the Advisory Council on Economic Security, com-

posed of prominent citizens not in the Government service and representing employers, employees, and the general public. This advisory Council was organized to give the Committee, not technical advice, but the reaction of practical laymen.

The Technical Board is supporting the Committee on Economic Security in all of its recommendations. The Advisory Council, as its report clearly establishes, also supports the program recommended in its broad outlines. On some details, as the report also shows, the Council was very closely divided, and after its final report was filed, some members presented supplemental statements elaborating particular points of view. It should be clearly understood, however, that none of the members of the Advisory Council disagree with the broad outlines of the program.

At this time, permit us again to say that we will be glad to furnish any material to your committee which it may desire. We have nothing to hide and want to be as helpful as possible to your committee.

Very truly yours,

COMMITTEE ON ECONOMIC SECURITY,
EDWIN E. WITTE, *Executive Director.*

WASHINGTON, D. C.
December 15, 1934.

Hon. FRANCES PERKINS,
Secretary of Labor, Washington, D. C.

DEAR MADAM SECRETARY: In accordance with your invitation given at the opening of the Advisory Council on Economic Security, indicating that you would be glad to consider views expressed by a minority or individuals, we desire to submit the following:

Our sympathy for the objectives expressed by the President concerning greater social security and the removal of fear of unemployment from the worker's mind moves us to the belief that certain of the recommendations of the Advisory Council should be emphasized:

1. The first objective that should be encouraged is stabilization of employment, or assurance of employment, and this is along the line of the President's pronouncement that, if this could be accomplished, the worker would be able to look forward to at least a minimum amount for an annual wage on which to plan his family's support. This should produce better work at lower cost, reflected in lower selling prices and a consequent increase in consumption on the part of the community. No one knows how much can be done along the line of stabilization of employment, and therefore every effort should be made to encourage experiments in this direction by undividual companies, who will give adequate indemnities in the shape of Government bonds or otherwise to see that their guarantees of minimum annual employment will be carried out. To show that much more can be done along this line, we quote from an article in the New Republic of December 5, entitled "Security for Americans", by Elizabeth Brandeis:

"Although benefits do not begin generally under the law until reserves have been built up for 1 year, 70 companies have already guaranteed their 3,000 Wisconsin workers two-thirds of full-time work and wages for at least 42 weeks of the current year. Many other workers are now employed on a year's salary contract, as a direct result of the act, even before it is fully operative."

The assurance given to these 3,000 Wisconsin workers is equivalent to almost 54 percent of normal annual work or pay. If this is the result after the Wisconsin law has been in effect for only a few months and in one State, surely there must be a great opportunity for stabilization of employment and assurance of a large part of an annual wage throughout the United States. The law that should be enacted should recognize this as a desirable result of the legislation and should stimulate to the greatest extent such efforts of individual companies.

2. We would call your attention to the second principal objective mentioned on the first page of the Council's report:

"The plan should serve as an incentive to employers to provide steady work and to prevent unemployment."

We feel that considerable progress can be made toward this objective if companies or industries are permitted to set up separate accounts, with the safeguard provided in the Council's report.

If a plant or industry can reduce unemployment, after a certain reserve has been built up, their contribution to the reserve becomes less, which means their cost of production is less and that the selling price to the public may be reduced. Management will be encouraged to strive for greater efficiency in plant operation,

and the cost of the less regular industries will be borne by such industries, which is in line with the philosophy of the workmen's compensation acts generally adopted in this country; i. e., that the cost of the more hazardous or less efficiently managed industries is reflected in the cost of production and therefore in higher selling prices to the public, and these increased costs are not borne by the industries which are less hazardous or more efficiently managed. If the community needs the products of such more hazardous or less efficiently managed industires, the increased cost thereof should be borne by the community. Miss Brandeis, in the article previously referred to, says:

"Under a pooled unemployment-insurance fund (as in Europe) this subsidy comes in large part from competitors who operate more steadily; namely, other concerns in the same industry or other industries that compete for the consumer's dollar. For instance, coal mines run irregularly, while oil refineries or water-power plants employ their workers more nearly the year round. Now, if idle coal miners were supported in part by insurance contributions from oil refineries and water-power plants, could anyone tell which is really the cheapest fuel? If the shoe factory or automobile plant which runs the year round had to subsidize the competing factory or plant which does not, there would arise a species of unfair competition that might even force out of business the truly low-cost concern."

In Ohio, where a pooled plan has been recommended, differences in hazards are recognized and varying rates may in time be determined for the different industries.

3. Because there is such a wide difference of opinion and so little actual experience, we cordially endorse the President's view that there should be the widest opportunity for experimentation and encouragement should be given to companies and industries, whether intrastate or interstate, to experiment with standards not less favorable than those approved by a governmental administrative body.

Respectfully yours,

M. B. Folsam.
M. E. Leeds.
S. Lewishon.
Raymond Moley.
Gerard Swope.
W. C. Teagle.

UNEMPLOYMENT INSURANCE

	Employer	Employee	Total
	Percent	*Percent*	*Percent*
1936-37 (1 year)	1		1
1937-38 (1 year)	1½		1½
1938-39 (1 year)	2	½	2½
1939-40 (1 year)	2½	½	3
1940-43 (3 years)	3	½	3½
1943-46 (3 years)	3	½	3½
1946-49 (3 years)	3	½	3½
1949-52 (3 years)	3	½	3½
1952	3	½	3½

PENSIONS

	Employer	Employee	Total
1936-40 (4 years)	½	½	1
1940-43 (3 years)	½	1	1½
1943-46 (3 years)	1	1½	2½
1946-49 (3 years)	1½	2	3½
1949-52 (3 years)	2	2½	4½
1952	2	3	5

TOTALS

	Employer	Employee	Total
1936-37 (1 year)	1½	½	2
1937-38 (1 year)	2	½	2½
1938-39 (1 year)	2½	1	3½
1939-40 (1 year)	3	1	4
1940-43 (3 years)	3½	1½	5
1943-46 (3 years)	4	2	6
1946-49 (3 years)	4½	2½	7
1949-52 (3 years)	5	3	8
1952	5	3½	8½

WASHINGTON, D. C., *December 15, 1934.*

HON. FRANCES PERKINS,
Secretary of Labor, Washington, D. C.

DEAR MADAM SECRETARY: The Advisory Council has gone on record as not approving in principle employee contributions. We feel very strongly on this subject, and therefore beg leave to submit this, our position, to you for your consideration.

Employee contributions are in effect in every system of unemployment insurance in Europe, with the single exception of Russia. Experts and actuaries have worked on this problem and many have made recommendations through various State commissions for employee contributions. To mention only a few, the Minnesota commission recommended 50 percent from the employee and 50 percent from the employer; in Ohio, two-thirds from the employer and one-third from the employee (total 3 percent, although in this instance the actuary recommended 50 percent from the employer and 50 percent from the employee, 2 percent each); and in New Hampshire, 2½ percent from the employer and 1 percent from the employee. With employee contributions, the total fund can be increased over that provided merely by employer contributions, which therefore increases the amount and lengthens the period of benefits; and, even more important, employee contributions provide more effective administration and a clearer conception on the part of workers of their responsibilities as self-respecting citizens, the worker than regarding the plan as partly his own to which he has contributed, and not looking upon it as something given to him as a gratuity.

In the discussion in the Council, many held that, while unemployment insurance was a burden that should be rightly carried by the employer alone, old-age pensions were not properly a burden on industry, but that old age is an incident in everyone's life. The Council voted, however, that the burden of old-age pensions should be borne equally by employer and employee, not because it was either scientifically correct or just, but principally because this was the simplest way of accomplishing the results. Therefore, possibly by combining unemployment insurance and old-age pensions something can be done to meet these divergent views and which will give a larger fund for unemployment insurance than that recommended by the Council and make both plans effective at an earlier date than the recommendations of the Council call for. In the recommendations of the Council, both plans will be in full force and effect in 1956. Enclosed is a table and a chart which will bring both plans into full force and effect in 1952, will give a larger amount for unemployment insurance, and will make the imposition of the burden on the employer more gradual and easier to bear without unduly increasing the burden on the employee. In considering this table and chart, we appreciate, of course, that different combinations can be made as to rates and time when such rates become effective.

Respectfully yours,

M. B. FOLSOM.
S. LEWISOHN.
RAYMOND MOLEY.
GERARD SWOPE.
W. C. TEAGLE.

REPORT OF THE TECHNICAL BOARD ON THE MAJOR ALTERNATIVE PLANS FOR THE ADMINISTRATION OF UNEMPLOYMENT INSURANCE

(Presented to the Committee on Economic Security, Nov. 9, 1934)

I. Three major alternative plans for the administration of unemployment insurance are worthy of consideration:

(1) *An exclusively Federal system.*—Under such a system the Federal Government would levy a tax on employers and possibly also on employees, the proceeds of which would be appropriated for unemployment insurance purposes. In this act it would set up a complete system for the administration of unemployment insurance specifying all conditions for benefits. The Federal Government would directly administer these benefits through the Employment Service and Federal record offices, which would probably be set up on a regional basis.

(2) *A cooperative Federal-State system on the subsidy plan.*—Under such a system the Federal Government would, likewise, levy and collect a pay-roll tax on employers and possibly also on employees. It would provide further for subsidies to States which enact unemployment insurance laws satisfying standards specified in the Federal act. These subsidies would be a stated percentage of the tax actually collected from the respective States, which would be set up

as a credit in the Federal Reserve banks to the account of the State. A specified percentage (say, 20 percent) might be appropriated to the supervisory Federal department and used to finance the Employment Service, to create a reinsurance fund and/or a fund for payment of benefits to employees who lose their jobs soon after they have migrated into a new State after still having unused credits in another State. Under this system the States would likewise have to pass unemployment insurance laws which would have to satisfy the standards prescribed by Federal law, but might vary in other respects from the laws of other States. All funds would be held at all times by the Federal Government but the benefits would be administered by the States, presumably through the employment offices and central record offices.

(3) *A cooperative Federal-State system on the Wagner-Lewis principle.*—Under this system the Federal Government would impose an excise tax on employers against which there would be allowed as a credit (up to the full amount of the tax or any stated percentage thereof) the amounts paid by such employers into unemployment insurance or reserve funds established pursuant to State laws meeting standards prescribed in the Federal law. The cooperating States would collect the contributions from employers (and, if they so determined also from employees) and deposit these in the Federal Reserve banks to be held to their credit and to be invested and liquidated under regulations to be made by the Federal Reserve Board. Under this plan, as well as under the subsidy plan, a percentage of the amounts collected by the States might be withheld by the Federal Government to be used as a reinsurance fund. The administration of benefits under this plan would be a State responsibility, but could be controlled to some (probably a limited) extent by Federal legislation.

II. Which of these three plans should be adopted should be decided primarily on practical and fundamental policy considerations, rather than on the issue of constitutionality. All three of these proposals are new and some arguments can be made both in favor and opposed to the constitutionality of each of them. What the Supreme Court might hold is largely conjecture and is likely to depend upon the detailed development of these respective plans. Among the people consulted there seems to be a quite general impression that the Federal-State subsidy plan is the least likely to be overthrown on constitutional grounds, but there are some uncertainties even as to this plan, depending upon how it is worked out in detail.

Fundamental in a decision between these plans is the question of the desirable extent of national control in this field. The exclusively national system would insure uniformity throughout the country, not only with regard to contributions but also benefits. It would ignore State lines and, thus, make it a relatively simple matter to protect the benefit rights of employees when they move from State to State. It would also make possible a pooled fund for the entire country and thereby automatically meet the problem presented by unusual unemployment in particular industries and States, without necessity for any reinsurance fund. It would also have the advantage of whatever degree of increased efficiency there may be in Federal as compared with State administration. It would be put into operation more quickly than any Federal-State plan and would come into effect at one and the same time throughout the entire country.

The major considerations on the other side concern the same fundamental question of the desirable extent of national control. An exclusively national system would necessitate decisions at the very outset on all points which could not be left to administrative discretion, such as employee contributions, industrial and plant funds, incentives to regularization, etc. Even among the people who strongly believe in unemployment insurance and who have given the most thought to this subject there are wide differences of opinion on many of the most fundamental questions arising in the preparation of an actual bill. Under a national system no experimentation on a relatively small scale would be possible and mistakes made initially would have much more serius consequences than under State system. Moreover, "all the eggs would be in one basket", with the result that if the national law should be held unconstitutional, there would be no State unemployment insurance laws which remained intact.

III. As between a Federal-State system on a subsidy plan and a Federal-State system along the lines of the Wagner-Lewis bill, the only absolutely necessary difference is that under the former all taxes (contributions) levied on industry would be collected by the Federal Government, while under the latter the contributions under the State unemployment insurance laws would be collected by

the States. In practice, however, it seems almost certain that a greater degree of national control will be developed under the former than in the latter system.

The subsidy system provides a simpler method for the collection of contributions (pay-roll taxes) than the Wagner-Lewis device. It would have at least some tendency toward higher standards of administration—a most important matter. It probably would facilitate the setting up of reinsurance and transfer funds. From the point of view of expediency it has the advantage of being a brand-new proposal. Clearly it is superior to the Wagner-Lewis plan if extensive national control is desired at this time in unemployment insurance.

The Wagner-Lewis plan has the advantage over the subsidy plan that it will make it unnecessary to reach decisions under the Federal act on the most controversial questions in connection with unemployment insurance: Whether plant funds shall be permitted and whether employees shall be required to contribute. It may be that these questions could be left to the decisions of the States even under the subsidy plan but certainly not as easily as under the Wagner-Lewis device. Another important consideration is that under this plan there would be no pressure on Congress to use sources of revenue other than contributions for unemployment-insurance purposes, which is likely to become very strong under both the straight national and (Federal-State) subsidy plans. Finally, under the Wagner-Lewis bill, many States would doubtless pass unemployment insurance laws before the Federal tax became effective and could be litigated. In the event that the Federal law should then be held unconstitutional, the State laws would continue to operate. Under the subsidy plan, in contrast, while the States would also be required to pass legislation, their laws would include no revenue-raising features, so that they would become inoperative if the Federal act should for any reason be held invalid or if the Federal appropriation is discontinued.

IV. After extended consideration of these three major alternative plans for the administration of unemployment insurance, the executive committee board finds that it is divided regarding which of these systems is to be preferred. The unemployment insurance committee of the technical board, as well as the executive director, believe that the exclusively national system should be definitely rejected. Many of the members of the staff, on the other hand, favor a national system.

The unemployment insurance committee also holds the view that of the two alternative cooperative Federal-State systems the Wagner-Lewis plan is distinctly preferable to the subsidy system.

In view of the differences of opinion on the respective merits of the three major alternative systems of administration, a decision between these systems must be made by the Committee on Economic Security. An early decision is not only vital to the work of the staff but to the entire development of unemployment insurance legislation in this country. At this time unemployment insurance study commissions are functioning in nine states, charged with the duty of making recommendations on this subject to the incoming legislatures. In several other States unemployment insurance legislation was pledged in the platform of the party which won the recent election or has been promised by the successful candidate for Governor. And not only in these but many other States there is wide-spread interest in unemployment insurance legislation with good prospects for its enactment in the coming winter, when 43 State legislatures will be in session. In all States, however, there is at present great uncertainty as to what the Federal Government is going to do, which is holding up all plans for State legislation.

Whether the Committee on Economic Security believes that an exclusively national system is or is not desirable, announcement of its decision upon this point at the forthcoming national conference on economic security would be most appropriate and valuable. The States would then know whether they are to be in the picture and could make their plans accordingly. In view of the near approach of the sessions of Congress and the State legislatures, an early decision on the issue of an exclusively national versus a cooperative State-Federal system would seem imperative.

A decision regarding the type of a cooperative Federal-State system which is desired (if such a system is preferred over an exclusively national system) is less urgent. If the committee, however, has decided preferences as between the subsidy plan and the Wagner-Lewis plan, it will facilitate the work of the staff and the technical board if this question also is promptly decided.

Submitted in behalf of the executive committee.

EDWIN E. WITTE, *Executive Director.*

SUPPLEMENTARY STATEMENT OF THE ADVISORY COUNCIL ON ECONOMIC SECURITY

To the Honorable FRANCES PERKINS,
Chairman President's Committee on Economic Security,
Washington, D. C.

We voted with the majority of the Advisory Council for a 3-percent pay-roll tax on employers; but we regard the revenue therefrom to be thoroughly inadequate as the foundation for benefits under the proposed Federal-State system of unemployment compensation. The actuaries of your Committee on Economic Security set before us the standards which they estimated as possible under such a 3-percent pay-roll tax. These are: First, after a worker is laid off, a 4 weeks, waiting period without benefit; then 15 weeks' benefits at 50 percent of normal wages (but in no case more than $15); thereafter, except for long-time employees, nothing. Our vote should not be regarded as recommending such meagre coverage.

Rather, to increase the benefits, a considerable minority of the Advisory Council voted for a 5-percent tax on pay rolls; and a larger group tied the vote at 4 percent. As no benefits, under the proposed scheme, are to accrue until 3 years from now, they do not, of course, bear on the present mass unemployment. Our contention is that these standards fall short of any reasonable protection of unemployed wage-earners in normal times, which is the limited objective of the proposed legislation.

The simplest test of coverage is the length of time for which benefits run, compared with the length of time experience shows men and women seek work before they can find it. At our request the technical staff of the Committee on Economic Security drew up calculations on this point from duration tables for 1922–30 prepared by the Committee's actuaries as a basis for projecting a system of unemployment compensation. These went to show that even in "good times" 54 percent of the unemployed wage-earners would fall outside the benefit period provided by a 3-percent base; 26 percent because they would fall in the prolonged waiting period, and 28 percent because they would have been out of a job for more than 4 months. In "bad times" the proportion who would fall outside the benefit period would be as high as 80 percent; in average times, 60 percent.

These statistical estimates, with their known limitations, were brought down to everyday realities, when the results of a field survey were cited, carried out in 1928 for the Senate Committee on Labor, Senator Couzens, chairman. This was a unique case study of 750 workers let go the 12 months preceding from 20 groups of industries in Chicago, Baltimore, and Worcester, Mass. It was directed by Dr. Isador Lubin, now Chief of the Bureau of Labor Statistics of the United States Department of Labor. With prosperity at its height, 42 percent of those who had secured jobs, and 55 percent of those who hadn't at the time they were interviewed, were unemployed for more than 4 months.

From another angle, the adequacy of the majority proposal was challenged, by offering tables prepared by the technical staff of the Committee on Economic Security. These compared the protection proposed under a 3-percent plan for the United States and that afforded throughout recent years by the standard benefits of the British system of unemployment insurance which has a combined 4½-percent base. Earning $2 a day or its equivalent, either American or British worker would lose $208 in wages if out of work for 4 months. It was pointed out that, if eligible, under the proposed Federal act the American worker would be assured a total of $80 in unemployment compensation. The British worker, if single, would fare about as well; but if married, with 3 children, the family man would get $130 in the same period; and if allowance were made for relative purchasing power, he would get $156 against the American $80. In the higher wage brackets, the American would come off favorable with the British as long as his compensation lasts, but in any case that is only part of the picture. The general run of American benefits would be cut short at 14 or 15 weeks, while the British standard benefits begin after 1 week's waiting period (against the 4 proposed for the U. S. A.) and run up to 26 weeks (against 15).

An employee with a long work record in America might qualify for half a year; in England, for a full year.

We contend that if the British people could swing such a coverage throughout the post-war depression, and are now liberalizing it, the people of the United States might at least do as well in setting up a system of security in this period of anticipated recovery, when no benefits are to accrue to unemployed workers until 1938—3 years off.

According to actuarial estimates submitted by the technical-staff of the Committee on Economic Security, if 1 percent were added to the 3 percent proposed,

it would double the length of the benefits. Most of us who advocated longer benefits were for finding this 1 percent by bringing the pay roll tax on employers up to 4 percent (in the original Wagner-Lewis bill it was 5 percent). Some of us were for calling on the Federal Government to contribute it. All of us broke with the proposition that a worker, who qualifies under our new system and whose savings are exhausted, shall find himself thrown upon public relief at the end of 14 or 15 weeks of unemployment compensation.

We feel so strongly that such benefits cover too short a period that, while we signed the report as a whole, we wish to make our position altogether clear to the Committee on Economic Security. Moreover we believe it a disservice to the President for us not to point out their inadequacy.

PAUL KELLOGG.
FRANK P. GRAHAM.[1]
WILLIAM GREEN.[1]
HELEN HALL.[1]
HENRY OHL, JR.[1]

TABLE I.—*Calculations as to percent of unemployed falling within 4 weeks' waiting period and 15 weeks' benefit period*

[The duration tables—with their known limitations—yet show some data]

DISTRIBUTION OF THE UNEMPLOYED, 1922–30

	3–7 percent unemployment A	7–11 percent unemployment B	11–20 percent unemployment C	20–30 percent unemployment D	30–43 percent unemployment E	Comps. F
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Under 4 weeks	27	26	21	21	17	21
4 to 19 weeks	45	46	47	34	22	40
Over 19 weeks	28	28	32	45	61	39

In "good times" (A and B) roughly half of unemployed within benefit period; one-fourth within waiting period; one-fourth beyond benefit period.
In "bad times" (E) 22 percent within benefit period; 17 percent within waiting period; 61 percent beyond benefit period.
In all studies 40 percent within benefit period; 20 percent within waiting period; 40 percent beyond benefit period.
Corrections for cumulative periods for each individual would probably reduce percentage in waiting period, increase percentage beyond benefits, and not much change in benefit percentage.
Source: Technical Staff, Committee on Economic Security.

TABLE II.—*Unemployment history of 754 discharged workers*

[From the Absorption of the Unemployed by American Industry, by Isador Lubin; Brookings Institution Pamphlet Series, Vol. 1, No. 3, p. 5; published July 1, 1929]

1. THOSE WHO FOUND JOBS

Length of time unemployed	Classified by period of unemployment: Number	Classified by period of unemployment: Percentage	Cumulated: Number	Cumulated: Percentage
Under 1 month	47	11.5	47	11.5
1 to 2 months	66	16.1	113	27.6
2 to 3 months	66	16.1	179	43.7
3 to 4 months	60	14.6	239	58.3
4 to 5 months	43	10.5	282	68.8
5 to 6 months	30	7.3	312	76.1
6 to 7 months	28	6.9	340	83.0
7 to 8 months	23	5.6	363	88.6
8 to 9 months	18	4.4	381	93.0
9 to 10 months	10	2.4	391	95.4
10 to 11 months	7	1.7	398	97.1
11 to 12 months	3	.7	401	97.8
12 months or over	6	1.5	407	99.3
Not stated	3	.7	410	100.0
Total	410	100.0		

[1] Signatures received by wire and mail.

TABLE II.—*Unemployment history of 754 discharged workers*—Continued

2. THOSE STILL UNEMPLOYED WHEN INTERVIEWED

Length of time unemployed	Classified by period of unemployment		Cumulated	
	Number	Percentage	Number	Percentage
Under 1 month	43	12.5	43	12.5
1 to 2 months	40	11.6	83	24.1
2 to 3 months	37	10.8	120	34.9
3 to 4 months	34	9.9	154	44.8
4 to 5 months	26	7.6	180	52.4
5 to 6 months	22	6.4	202	58.8
6 to 7 months	27	7.9	229	66.7
7 to 8 months	18	5.2	247	71.9
8 to 9 months	31	9.0	278	80.9
9 to 10 months	19	5.5	297	86.4
10 to 11 months	7	2.0	304	88.4
11 to 12 months	8	2.3	312	90.7
12 months or over	29	8.4	341	99.1
Not stated	3	.9	344	100.0
Total	344	100.0		

TABLE III.—*Comparisons at $2 and $4 wage levels of benefits under standard British unemployment insurance and the proposed American scheme, based on 3-percent pay-roll tax, 4 weeks waiting period and 14 weeks benefit period*

[Drawn from tables prepared by the technical staff of the Committee on Economic Security. All benefits stated in dollars]

1. MARRIED MAN WITH THREE CHILDREN

A. Assuming that £1 equals $5

Unemployed	British			Percent net loss	Proposed American			Percent
	Wages lost	Benefits	Net loss		Wages lost	Benefits	Net loss	
$2 wage per day:								
1 month	$52	$26.67	$25.33	49	$52	$2	$50	96
4 months	208	130.67	77.33	37	208	80	128	62
6 months	312	200.00	112.00	36	312	84	228	73
$4 wage per day:								
1 month	104	26.67	77.33	74	104	4	100	96
4 months	416	130.67	285.33	69	416	160	256	62
6 months	624	200.00	424.00	68	624	168	456	73

2. SINGLE MAN

Unemployed	Wages lost	Benefits	Net loss	Percent net loss	Wages lost	Benefits	Net loss	Percent
$2 wage per day:								
1 month	$52	$14.17	$37.83	73	$52	$2	$50	96
4 months	208	69.43	138.57	67	208	80	128	62
6 months	312	106.27	205.73	66	312	84	228	73
$4 wage per day:								
1 month	104	14.17	89.83	86	104	4	100	96
4 months	416	69.43	346.57	83	416	160	256	62
6 months	624	106.27	517.73	83	624	168	456	73

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TABLE III.—*Comparisons at $2 and $4 wage levels of benefits under standard British unemployment insurance and the proposed American scheme, based on 3-percent pay-roll tax, 4 weeks waiting period and 14 weeks benefit period*—Contd.

1. MARRIED MAN WITH THREE CHILDREN

B. Assuming the £ to be equivalent to $6 on basis of living costs, using wholesale price indices

Unemployed	British			Percent net loss	Proposed American			
	Wages lost	Benefits	Net loss		Wages lost	Benefits	Net loss	Percent
$2 wage per day:								
1 month	$52	$32.00	$20.00	38	$52	$2	$50	96
4 months	208	156.80	51.20	25	208	80	128	62
6 months	312	240.00	72.00	23	312	84	228	73
$4 wage per day:								
1 month	104	32.00	72.00	69	104	4	100	96
4 months	416	156.80	259.20	62	416	160	256	62
6 months	624	240.00	384.00	62	624	168	456	73

2. SINGLE MAN

$2 wage per day:								
1 month	$52	$17.00	$35.00	67	$52	$2	$50	$96
4 months	208	83.30	124.70	60	208	80	128	62
6 months	312	127.50	184.50	59	312	84	228	73
$4 wage per day:								
1 month	104	17.00	87.00	84	104	4	100	96
4 months	416	83.30	332.70	80	416	160	256	62
6 months	624	127.50	496.50	80	624	168	456	73

ACTUARIAL ESTIMATES OF THE PERIODS FOR WHICH UNEMPLOYMENT INSURANCE BENEFITS CAN BE PAID AT VARYING CONTRIBUTION RATES

[From p. 16, Memorandum 4176, "Major Issues in Unemployment Compensation", by Edwin E. Witte, Executive Director, Committee on Economic Security]

All estimates are based on the assumption that benefits will be one-half the weekly wage but not exceeding $25 per week and that the unemployment insurance fund should be entirely self-sustaining. All calculations, further, are based on a Nation-wide insurance system, with 1 year of contribution before benefits become payable. The estimates on the left-hand side of the table given below are based on the experience of 1922–30 and those on the right-hand side on the experience of 1922–33, the assumption being that by the end of these periods the entire fund would be exhausted.

TABLE IV.—*Varying periods of benefit based upon using 1 additional year of contribution*

Experience 1922–30		Experience 1922–33	
Waiting period	Benefit period, weeks,	Contribution rate, percent	Benefit period, weeks
4 weeks	15	3	11
	30	4	16
	52	4½	19
	52	5	23
3 weeks	13	3	10
	23	4	15
	37	4½	18
	52	5	21
2 weeks	12	3	9
	19	4	14
	28	4½	16
	43	5	19

The Grants-in-Aid Type of Federal-State Cooperative plan For Unemployment Compensation

By President Frank P. Graham, chairman, Advisory Council

(Not an analysis or comparison, but a summary of some of the larger aspects of the grant-in-aid plan supported by the majority as interpreted by one of them.)

The majority of the Advisory Council on Economic Security by a vote of 9 to 7 favor the grant-in-aid type of Federal-State cooperative plan for unemployment compensation. A number of the majority are for an outright national plan. All would strongly favor the Wagner-Lewis type as against any less meritorious plan. All would present a united front against those who would oppose or delay legislation this winter. Yet the majority are clearly for the grant-in-aid plan.

The fundamental position upheld by the majority is that the grants-in-aid plan is more adaptable to our economic life and to the needs of both industry and the workers. American economic society is national in nature. It is not organized according to geographical or political subdivisions. Industries reach across States, sections, and even the continent. In this economic society labor is mobile. Workers move from industry to industry, from State to State, from an industry in one State to the same industry in another State, and from an industry in one State to a different industry in another State. In a society of fluid capital, migratory industries, shifting labor markets, seasonal, technological, and cyclical forces, unemployment is a social hazard of our dynamic industrial life.

Unemployment is, thus, a problem of industry and the Nation. Its economic and other causes and its social and other incidence involve our whole industrial order. Any Federal-State cooperative plan for unemployment compensation should, therefore, recognize as far as practicable and wise, our national economic structure. Cooperative Federal-State legislation and administration should recognize the spheres and values of the Federal and State governments, but the States should not be required to attempt to meet situations and serve purposes not in accordance with their situation and nature.

The purpose of the Federal-State cooperation is to stimulate a more intelligent stabilization of industry and to provide more security for the workers. The Wagner-Lewis plan and the grant-in-aid plan are both Federal-State plans directed toward these two ends, with more emphasis on the State approach in the former and with more emphasis on the national nature of unemployment in the latter. The majority hold that the grant-in-aid plan can more adequately meet the needs of American industries and workers with their unemployment problems created by (1) national and interstate industries, (2) mobile labor, interstate transfers, and employment records, (3) the need for Federal reinsurance, (4) for national minimum standards. Under the grant-in-aid plan the Federal-State administration can more effectively guard the integrity of the fund, the stabilization of industry, and the best interests of the workers as parts of our national dynamic society.

The collection of the tax by the Federal Government required by the grant-in-aid plan affords a clearer basis for the deposit of the money in the Federal Reserve banks. There can, under this plan, be no basis for pressure on Congress to allow the money to be deposited in local (and in some States political) banks. The value of the nationally wise use of the funds by the Federal Reserve as an aid to stabilization cannot then be jeopardized by either financial short-circuits or political misuses.

Furthermore the grant-in-aid would be separate from the tax law. Congress has power to levy this geographically uniform excise tax on pay rolls. Congress also has power to appropriate money as grants-in-aid to States for a public purpose on terms laid down by Congress. Unemployment compensation and the promotion of industrial stabilization and social security constitute a clear public purpose. In the Wagner-Lewis plan the tax and the appropriation are joined in the same act. Under the strain of carrying sufficient national minimum standards and other regulations required by the interstate and national nature of industry and unemployment, such a joint act more seriously raises the question of constitutionality.

The grant-in-aid plan appears not only the stronger constitutionally, but is also a variation and development of Federal grants-in-aid which are an historically established part of our Federal-State structure. This plan also more nearly fits in with some other proposed plans to promote insurance against destitution and could more readily help to unify the collection of the funds involved in more comprehensive program of social security.

For the purpose of securing early legislation by the States for this progress, Congress could fix a time limit as a condition for a valid acceptance by the States. Moreover, with the interests of industry and 16 million workers involved it is inconceivable that Congress would ever fail to continue the appropriations.

The grant-in-aid plan, it seems to us, can provide for Federal-State cooperation, is yet more adapatable. The needs of industry and the workers in our national economic society can secure and maintain Nation-wide minimum standards without as validly raising the question of constitutionality, and provides for experimentation in the interests of stabilization. It leaves open to the States experimentation along the lines of pooled insurance, plant accounts, or a combination of the two. The plan can also provide a clearer basis for experiementation along interstate and even national lines. On the basis of all these experiments, we may develop toward the best plan whether mainly State, mainly Federal, or wholly national.

Finally, we believe that the grant-in-aid plan can better provide for essential minimum standards in the interests of the fund, the employers, and the employees. Minimum standards for all the States in such a Federal-cooperative plan would furnish the bottom below which there must be no chiseling or exploitation and above which there can be wide experimentation by the States and industries for the purpose of stabilization, increased employment, and more security for the workers of America.

REPORT OF THE ADVISORY COUNCIL TO THE COMMITTEE ON ECONOMIC SECURITY

PARTS

I. Unemployment compensation
II. Old-age security
III. Security for children
IV. Employment and relief
V. Risks to economic security arising out of ill health

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Part I. Unemployment Compensation

All members of the Advisory Council join with the President in holding that legislation for unemployment compensation, on as nearly a nation-wide basis as possible, should be enacted this winter.

We support his statement to the National Conference on Economic Security that "unemployment insurance must be set up with the purpose of decreasing rather than increasing unemployment." While we believe that the States should be permitted a large freedom in choosing the type of plan they establish, we strongly recommend that the Committee on Economic Security, in considering Federal legislation, and that the States in considering State legislation, keep in mind these two principal objectives:

(1) The plan should promote security by providing compensation for workers who are laid off.

(2) The plan should serve as an incentive to employers to provide steady work and to prevent unemployment.

We regard it as settled that unemployment compensation at this time should be developed along Federal-State lines. In this cooperative undertaking the Federal Government must assume the leadership. It should make it easier for the States to act by removing those disadvantages in interstate competition which

are always raised against purely State legislation that involves costs to industry. This knot should be cut by requiring industries in all States (whether the States enact unemployment compensation laws or not) to make uniform pay-roll contributions. The Federal Government should enact a law prescribing minimum standards, and should actively assist the States in preparing necessary State legislation and in getting their plans into operation. The Federal Government should set up an administrative authority, and, as suggested by the President, should assume responsibility for the safeguarding of all unemployment reserve funds and use these funds to promote stabilization.

The States for their part must assume responsibility for State administration. Unemployment-compensation benefits must necessarily be locally administered, and no large bureaucracy in Washington need be created if this principle is observed. Subject to necessary minimum standards prescribed in the Federal law, wide latitude should be allowed the States to experiment with respect to the particular form and provisions of the unemployment-compensation laws which they may enact. Such laws should, however, be completely divorced from relief.

The Advisory Council makes the following specific recommendations:

Type of Federal Legislation.—The Council adopted a motion recommending:

(1) A Federal pay-roll tax.

(2) An independent act providing grants-in-aid to the States for unemployment compensation and employment stabilization, and similar grants-in-aid to industry and plant accounts, conforming to the provisions and standards of this Federal act.

The motion also recommended that the Federal law shall include a stipulation to the effect that no State shall receive such grants until its State law providing for unemployment compensation is in effect, together with any other feasible provisions designed to stimulate prompt State action.

The majority favoring the Federal tax and Federal grants-in-aid type of legislation did so because they believed this type of legislation would have advantages:

(*a*) In dealing on a Nation-wide basis with situations which cross and transcend State boundaries.

(*b*) In establishing and maintaining throughout this country the essential minimum standards.

(*c*) In removing all obstacles to bring the reserve funds into Federal control.

(*d*) In that it would run less risk of unconstitutionality compared with the Wagner-Lewis type of legislation when the latter is equally equipped with provisions of minimum standards for the States.

(*e*) In that Federal collection and Federal control of funds through the power to allow or disallow grants, would be an important element in national control.

(*f*) In that it would lend itself more readily to developing a national system, should that become advisable.

The minority favoring the Wagner-Lewis type of law believes that it is a general Federal-State measure, utilizing traditional American methods and local machinery in the administration of labor laws, and has the following advantages:

(*a*) It permits experimentation by the States as to the type of State law to be adopted, waiting periods, the amount and duration of benefits, and as to other matters in which experimentation is desirable.

(*b*) It secures uniformity where uniformity is essential, namely, the equalization of competitive costs.

(*c*) It permits the requirement of all essential uniform standards, such as that the money collected must be spent for unemployment benefits, the custody of the funds, and others.

(*d*) It secures the advantages of Federal supervision with decentralization of administration, and local responsibility.

(*e*) It avoids the hazards of an annual appropriation by Congress.

(*f*) It raises substantially the same constitutional questions as the subsidy type of bill, but has the great merit that should it be held unconstitutional, the State laws would be complete in themselves and would remain operative.

(*g*) It will result in Federal and State legislation this winter, while 44 State legislatures are meeting and there is strong public support, which is doubtful under the subsidy plan, particularly if many detailed standards to which the State laws must conform are inserted in the Federal act.

All of the members recognized that each type of Federal law has distinct merits, and wished their votes to be interpreted not as necessarily opposing either type of law, but as preferring one to the other.

Types of State laws.—We recommend that States be permitted to adopt any one of four types as follows:

(*a*) State-wide pooling of funds with or without adjustment of contribution rates according to experience.

(*b*) Separate accounts for any employer or group of employers who may wish to establish them, provided financial guarantees, in such manner as the State administrative agency may require, are given equal to 15 percent of their average annual pay roll during the preceding 5 years or 2 years, whichever is higher. A pooled account for all other employers, with adjustment of contribution rates according to experience.

(*c*) Separate accounts for any employer or group of employers who may wish to establish them, provided contributions of not less than 1 percent of the pay roll are made to the pooled account. All other income is to be pooled in such account. Financial guarantees may be required for the amount which is to be kept in the separate accounts.

(*d*) Separate accounts for all employers (or groups of employers) provided contributions of not less than 1 percent of the pay roll are made to a State fund.[1]

Interstate industrial and company accounts.—Interstate industrial and company accounts which will be exempt from the requirements of State laws, except as hereafter stated, and which will be administered under rules and regulations to be prescribed by the Federal administrative agency, should be authorized in the Federal act, subject to the following conditions:

(1) Only industries and employers who have a substantial number of employees in each of two or more States, shall be permitted to establish interstate accounts.

(2) Interstate industrial and company accounts must make a contribution of 1 percent on their pay roll to the pooled State accounts of States in which they operate having such accounts.

(3) Interstate industrial and company accounts must give as liberal benefits in each State in which they operate as required by the law of that State.

(4) Interstate industrial and company accounts must have the approval of each State in which they operate.

(5) Interstate industrial and company accounts may be set up only with the approval of the Federal administrative authority.

Reinsurance (equalization) fund.—While it is very desirable that there should be a Federal reinsurance fund in order to give equivalent protection to unemployed workers in all States and industries, the practical difficulties are such that the Advisory Council is satisfied that it cannot be set up at this time. We recommend, however, that the Federal administrative authority study this subject.

STANDARDS IN FEDERAL AND STATE LAWS

Coverage.—The Federal acts should apply to all employers who employ directly, or indirectly through subcontractors not subject to the law, six or more employees during any 13 weeks of the preceding year; excluding, however, employees not engaged in the usual trade, business, profession, or occupation of the employer. The States should be required to have at least as broad a coverage as that prescribed in the Federal law. However, any employment for which a separate system of unemployment compensation may be established by Federal law should be excluded. Public employees of States, counties, and cities should be made eligible to unemployment compensation on the same basis as the employees of private employers. Only the first $50 of the salary or wage of employees covered by the act is to be included in the computation of the Federal tax.

A broader coverage than that suggested is deemed desirable by the Advisory Council, but practical considerations lead us to recommend that it be limited as above outlined in inaugurating the system. We recommend, however, that the Federal administrative authority study the problem of extending the coverage to the employers of less than six employees. We recommend also that it work out plans for unemployment compensation to the employees of the Federal Government, especially those employed directly on construction or other work projects.

A. TYPES OF UNEMPLOYMENT BENEFITED

(1) Total loss of weekly wages caused by lack of work, or partial loss of weekly wages caused by lack of work amounting over a 4-week period to an average of more than 50 percent of the normal full-time weekly earnings.

(2) Unemployment occurring in the regular work season of the year in trades in which regularly recurrent periods of slackness occur (the uncompensated slack periods to be designated by the competent administrative agency).

[1] A motion to permit a fifth type, permitting separate accounts for all employers without either guarantees or contributions to any State fund was voted down.

B. TYPES OF UNEMPLOYMENT NOT BENEFITED

(1) Unemployment of persons directly engaged in trade disputes for duration of dispute.

(2) Unemployment caused by discharge for proved misconduct.

(3) Voluntary quit without reasonable cause may be uncompensated entirely or for such period as the plan may designate.

(4) Unemployment during which workmen's-compensation or other compulsory cash benefits are received.

C. ELIGIBILITY

(1) Fulfillment of the following qualifying periods:

(*a*) Employment of not less than 40 weeks in 24 months preceding claim.

(*b*) Employment not less than 10 weeks after maximum duration of benefits in a 12-month period is drawn.

(2) Registration at public employment office or other designated place and at times stated.

(3) Able to work and available for work.

(4) Unable to find suitable employment. Suitable employment means employment for which the insured is reasonably fitted, and located within a reasonable distance. No otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality; (3) if acceptance of such employment would affect the applicant's right to accept of refrain from accepting or retaining membership in or observance of the rules of an organization of employees.

Contributions.—It was voted that the Federal tax law recommended should impose a pay-roll tax of 3 percent on employers who are subject to the act beginning with the year 1936, but with the proviso that if for the year 1935 the index of production of the Federal Reserve Board shall be less than 90 percent of the index for 1926, the rate of tax in the first year shall be 1 percent. (Before arriving at the rate of pay-roll tax suggested, the Council rejected a proposed rate of 5 percent and a proposed rate of 4 percent by close votes, after which a rate of 3 percent was agreed on.)

The Advisory Council does not recommend that employee contributions be provided in the Federal act. A number of members, however, believe that employee contributions should be required, since they would increase the amount and the period of benefits, and, even more important, they would make the employees a part of the administration and more effective in its control. These members believe further that employee contributions would cause the worker to regard the plan as partly his own and not as something given to him as a gratuity, and thus operate to prevent malingering and similar abuses.

On the other hand, a majority of the members of the Council were opposed to the principle of employee contributions. They felt that compulsory employee contributions are unjust, and while they are willing to leave this question up to the States, are opposed to any provisions for employee contributions in the Federal law. In their opinion, contributions paid by employers are, in the long run, passed on to consumers, while contributions paid by the workers, who can do nothing to reduce unemployment, cannot be so shifted. Those opposed to employee contributions regard the cost of unemployment as a legitimate charge in the cost of production. These members, as well as others sympathetic to the general principle of employee participation, felt that with a waiting period of 4 weeks recommended in the Federal law, employees would be meeting a large initial share of the risk of broken work and, coupled with the 50 percent loss of income throughout the benefit period, should not be further burdened.

Some members voting with the majority took the position that while there are no overwhelming logical reasons against employee contributions there is a practical consideration in the fact that employee contributions will be necessary in old-age insurance.

The Advisory Council recommends that it be left optional with the States to require contributions from employees. In the report of the committee and in any model bill which it may promulgate, it is recommended that attention be called to the fact that more adequate benefits can be paid if contributions are increased, whether these increased contributions come from employers, employees, or the Government. A motion to increase benefits by providing a contribution from the Federal Treasury itself was voted down by a large majority.

Depository for funds.—The Advisory Council recommends that all reserve funds should be deposited in the Federal Reserve banks under obligation that they be so managed as to assist stabilization of business and employment. We recommend that the Federal Government should arrange so that the unused balances in the unemployment reserve accounts shall receive interest at 3 percent.

Refunds (credits) to employers who stabilize employment.—In States providing for industry or plant accounts, under the subsidy type of Federal law a refund should be paid to employers who have such accounts, and whose reserves equal to or exceed 15 percent of their total average pay roll during the preceding 5 years or the preceding 2 years, whichever is the higher. In States having pooled funds, with merit ratings, a similar refund should be allowed to employers who become entitled to a low rate of contributions because of their favorable experience Under a Wagner-Lewis type of Federal act, employers who under the subsidy type of act would be entitled to a refund, should be allowed the same amount as a credit against the Federal tax.

Benefits.—It is recommended that the standard benefits in inaugurating the system be based on actuarial calculations for the period 1922 to 1930. This plan proposed is designed primarily for normal times, minor depressions, and the early stages of a severe depression.

In the determination of the standard benefit, it is recommended that the actuarial computations assume a waiting period of 4 weeks and a benefit rate of 50 percent of the average weekly earnings (or in the case of regular part-time workers, average full-time earnings for that part of the week in which they are usually employed) with a maximum compensation of $15 per week.

The length of the standard benefits should be based upon the ratio of 1 week of benefit to 4 weeks of employment, with a maximum standard benefit of not less than 14 weeks in any consecutive 12 months, except that 1 additional week of benefit should be allowed for each 26 weeks of employment against which no benefit was drawn during the 5 years preceding the filing of the claim. This additional allowance would enable employees with long and continuous employment to receive a maximum of 10 weeks' benefit in excess of the maximum allowed for standard benefits.

In view of the wide divergence in the amount of unemployment in different States and industries, it is recommended that wide latitude be allowed to States with regard to the rate of benefits, minimum and maximum benefits, minimum duration of benefits, ratio of weeks of benefit to weeks of employment, and length of the waiting period. States should have freedom to substitute their own benefit provisions for the standard benefit recommended, provided that they satisfy the Federal administrative authority that there is a reasonable prospect that they will be able to maintain payment of benefits on the basis prescribed in their law. In no event, however, is a State law to be approved unless it has a waiting period of not less than 2 nor more than 4 weeks, and prescribes a rate of benefits of at least 50 percent of the average weekly earnings, and a maximum benefit of at least $15 per week. A minimum rate of benefits should also be included in each State law, sufficient to enable unemployed workers to maintain themselves and their families during the period while they are drawing benefits without necessity of resort to private or public charity.

Actual payment of benefits is not to begin until 2 years after the act becomes effective.

Probationary period.—It is recommended that the length of the probationary period which employees must satisfy before they can claim any unemployment benefits be left discretionary with the States. In the Federal tax bill no account should be taken of the probationary period, the taxes to apply to employees during their probationary period no less than thereafter.

Interstate transfer of employees.—The principle should be recognized that employees who have unused benefit credits should not lose those credits because they change their employment from one State to another, but no entirely practical plan to carry out this principle has as yet been worked out. It is recommended that the Federal administrative agency be given authority to study this problem and to promulgate rules for carrying out the principle herein stated prior to the time when benefits actually become payable.

Guaranteed employment.—It is recommended that the legislation to be enacted shall permit plans for guaranteed employment to be set up within a State or on an interstate basis subject to the following conditions:

(1) Employment for at least 55 percent of the maximum period of possible work during any calendar year computed on the basis of 52 weeks' work during the year for the standard hours per week worked in such plant or those permitted

under any Federal or State code applicable to such plant, whichever is the higher, must be guaranteed, and any employees who are not given an opportunity for work equal to such guaranteed minimum work period shall be entitled to recover full wages for the part of the guaranteed employment for which work is not provided.

(2) Guaranteed employment plans are to be permitted only when the guarantee applies to all employees of any company, plant, or separate department (properly defined) of such company.

(3) Guaranteed employment plans may be established only with the approval of the State administrative agency, under such financial guarantees as such authorities may require, except in interstate accounts the approval of the Federal authority shall also be required.

(4) Where approved plans for guaranteed employment have been put into operation and their conditions fully complied with, employers maintaining such plans shall have returned to them, as a subsidy, the Federal excise tax levied against them.

ADMINISTRATION

State administrations.—The Federal law should require that States must accept the provisions of the Wagner-Peyser Act and provide for the administration of unemployment compensation through the Federal-State employment offices. It should be mandatory that all personnel connected with the administration of unemployment compensation be selected on a merit basis, under rules and regulations to be prescribed by the Federal administrative agency. It should be provided in the Federal act that State administrations must furnish such statistics and reports to the Federal agency as it may require. The States should be required further to provide that disputed claims shall be heard and decided in the first instance either by an impartial paid referee or by a local committee consisting of an impartial paid chairman and representatives of employers and employees, or in such other manner as may be approved by the Federal administrative agency.

We also recommend that the Federal act require the States to set up State and local advisory councils, representative of employers, employees, and the public for State plans, the members to be chosen by the State agency; and that advisory councils, representative of employers and employees, chosen in a manner satisfactory to the appropriate Government unemployment compensation authority shall be set up for all other plans, State or interstate.

Federal administration.—We recommend that the national administration of unemployment compensation be vested in the United States Department of Labor, and that the responsibility for all quasi-judicial and policy decisions be vested in a representative board, which is to have quasi-independent status, but is to make all its reports through the Department of Labor. It is recommended that this board consist of the Secretary of Labor, the Secretary of Commerce, and 5 members appointed by the President for terms of 5 years (which shall initially be staggered so that the term of 1 member shall expire each year).

The council further recommends that the chairman of the board shall be appointed by the President, rather than be ex officio, but recommends to the President the appointment of the present Secretary of Labor as the first chairman.

No qualifications for membership on this board are suggested for the Federal statute, but it is assumed that the President will have in mind that employers and employees as well as the public should be represented on this board. We recommend that this Federal board shall have the responsibility of passing upon State laws and their administration and of certifying to the Treasury their compliance with the Federal act. It should have like responsibility in regard to interstate accounts and all other matters left by the act for the determination of the Federal authority. The board should be authorized to make studies of employment stabilization and other pertinent subjects, to publish the results of its studies and to otherwise promote regularity of work. The conduct of the employment offices and the compilation of statistical and other information, however, is to remain a direct function of the Department of Labor. The intent of this recommendation is to make a separation between quasi-judicial and policy functions on the one hand, and the direct work of administration on the other, leaving the former to the new board and the latter to the Department of Labor.

Administrative expenses.—We recommend that a percentage of the proceeds of the Federal tax shall be retained for the expenses of the Federal and State Governments in the administration of the Unemployment Compensation Act, and in

sharing in the additional costs thrown on the Federal-State employment services. The Federal authority should be authorized to set a maximum limit upon the administration expenses of the States from the amount remitted by the Federal Government.

National standards.—It is recommended that the standards, conditions, and recommendations as to State laws, as set forth herein, shall be included in the Federal bill, regardless of the type of legislation adopted.

The majority of the Council are of the opinion that the minimum standards herein provided should be incorporated in the Federal law, but the Council realizes that as a matter of policy, in order to secure Federal and State legislation, the Committee on Economic Security may find it advisable to omit or amend some of these standards in the Federal act.

Assistance to States in the preparation and passage of State legislation.—Since the plan for unemployment compensation we recommend contemplates cooperative Federal-State action, it is essential that the National Government should actively interest itself in securing the enactment of the necessary State legislation. To this end we recommend that the Committee on Economic Security frame model State bills incorporating the various types of legislation permitted, under the Federal act, and be prepared upon request, to provide actuarial and expert assistance in the drafting of bills for introduction in the several State legislatures.

Part II. Old-Age Security

Three separate but complementary measures for old-age security are recommended:

1. A Federal subsidy to the States toward meeting the cost of noncontributory old-age pensions under old-age assistance laws complying with the standards prescribed in the Federal statute.
2. A Federal system of old-age insurance which will be compulsory for all industrial workers who can be brought under its terms.
3. A Federal system of voluntary old-age annuities for persons not covered compulsorily.

NONCONTRIBUTORY OLD-AGE PENSIONS

There are now 29 States with old-age assistance laws, providing varying standards of aid to aged persons granted upon differing conditions. Many of these laws are nonfunctioning; many of the others, through financial pressure, have cut benefits below a proper minimum, and have long waiting lists of needy persons; moreover, the financial limitations of many of the States and the indifference of others, indicate that State action alone cannot be relief upon which to provide either adequate or universal old-age assistance.

It is recommended:

1. That the Federal Government enter this situation by offering grants-in-aid to the States and territories which provide old-age assistance for their needy aged under plans that are approved by the Federal authority, such plans to include proposed administrative arrangements, estimated administrative costs, and the method of selecting personnel.
2. That the grants-in-aid constitute one-half of the expenditures, including administrative expenses, for noninstitutional old-age assistance made by any State or Territory under a plan approved by this Federal authority, provided that in computing the amount of said grants-in-aid, not more than $15 per month shall be paid in Federal subsidy on account of assistance provided for any aged persons in such State or Territory, nor more than 5 percent of the total assistance expenditures for administration.
3. A State or Territory should be permitted to impose qualifications upon the granting of assistance to needy aged persons, but it should be stipulated in the Congressional statute providing for the grants-in-aid that no plan shall be approved by the Federal administrative agency unless its old-age assistance laws and its administration measure up to the following standards:

(*a*) Is State-wide or Territory-wide, and if administered by subdivisions of the State or Territory, is mandatory upon such subdivisions.

(*b*) Establishes or designates a State welfare authority which shall be responsible to the Federal Government for the administration of the plan in the State; and which shall administer the plan locally through local welfare authorities.

(*c*) Grants to any claimant the right of appeal to such State authority.

(*d*) Provides that such State authority shall make full and complete reports to the Federal administrative agency in accordance with rules and regulations to be prescribed by the Federal administrative agency.

(*e*) Provides a minimum assistance grant which will provide a reasonable subsistence compatible with decency and health, provided that in the event that the claimant possesses income this minimum grant may be reduced by the amount of such income.

(*f*) Provides that an old person is entitled to aid if he satisfies the following conditions:

(1) Is a United States citizen.

(2) Has resided in the State or Territory for 5 years or more, within the 10 years immediately preceding application for assistance.

(3) Is not an inmate of an institution.

(4) Has an income inadequate to provide a reasonable subsistence compatible with decency and health.

(5) Possesses no real or personal property, or possesses real or personal property of a market value of not more than $5,000.

(6) Is 70 years of age or older; provided that after January 1, 1940, assistance shall not be denied to an otherwise qualified person after he is 65 years of age or older.

(*g*) Provides that at least so much of the sum paid as assistance to any aged recipient as represents the share of the United States Government in such assistance, shall be a lien on the estate of the aged recipient, which, upon his death, shall be enforced by the State or Territory, and the amount collected reported to the Federal administrative agency.

4. The cost of the Federal subsidy to the Federal-State noncontributory old-age pensions will require annual appropriations from the Treasury. If, however, a Federal compulsory contributory old-age annuity scheme is adopted, and the fiscal position of the Government indicates financing old-age assistance grants by borrowing, the reserves of the compulsory contributory old-age insurance scheme might be utilized for this purpose. If such a borrowing policy is adopted, formal certificates of indebtedness carrying 3-percent interest should be issued by the Treasury to the Federal authority administering the compulsory contributory old-age annuity scheme.

CONTRIBUTORY OLD-AGE INSURANCE

A Federal old-age insurance system is recommended, to be instituted at the earliest date possible, on the following plan:

1. *Scope.*—The act shall include on a compulsory basis all manual wage earners and those nonmanual wage earners who are employed at a rate of not more than $100 per week, provided however that no wage in excess of $50 per week shall be counted for insurance purposes. Wage earners in agriculture, governmental employment, and railroad service are not included on a compulsory basis.

2. *Tax on employers and employees.*—A tax shall be levied on employers and employees included within the scope of the compulsory provisions of the plan equal to the following percentages of pay roll: 1 percent in the first 5 years the system is in effect; 2 percent in the second 5 years; 3 percent in the third 5 years; 4 percent in the fourth 5 years; and 5 percent thereafter. Taxes shall be paid on both pay roll and wages on the assumption that the weekly wage of a single worker does not exceed $50.

It is recommended that employers and employees each pay one-half of the above percentages, with the employer responsible for the payment of the employee's tax but entitled to deduct the same amount from the wages due the employee.

3. *Federal contributions.*—After a contingency reserve of reasonable proportions has been accumulated (approximating one-fifth of the full reserve), the Federal Government shall contribute annually an amount sufficient to maintain such a reserve.

4. *Benefits.*[2]—No annuities are to be paid until the system has been in operation for 5 years nor to any worker who has not made 200 weekly contributions. Thereafter the following benefits are to be paid on retirement at age 65 or later to workers (*a*) who entered insurance before attaining age 60, and (*b*) on whose account at least 200 joint weekly contributions have been paid, provided that contributions made after reaching the age of 65 years shall not affect the amount of the annuity.

[2] This plan of benefits applies only to persons entering the insurance system during the first 5 years of its operation, and is organized to cover the situation of workers who are middle-aged and over at the time that the system goes into operation. The permanent scheme of benefits not having to meet that situation will, while following the general plan outlined here adjust the full annuity to the contributory period of a normal working life.

It is proposed to provide a larger relative annuity for lower-paid workers by weighting more heavily the first $15 of weekly wage. In the following description of benefits, however, the average percentage paid to all wage groups is used in indicating the annuities payable in each year.

(*a*) A pension equal to 15 percent of the average weekly contribution wage (not counting that portion of average weekly contribution wage in excess of $35 weekly) to workers retiring in the sixth year the system is in operation. Pension percentages are to be increased by 1 percent each year in the next 5 years and by 2 percent each year in the following 10 years, thus bringing percentage to a maximum of 40 percent of the joint contributions 20 years after the system comes into operation. In no case shall the pension be less than the amount purchasable by the worker's own contributions.

(*b*) A death benefit to beneficiaries of insured workers who die prior to retirement equal to worker's own contributions accumulated with interest at 3 percent.

(*c*) A death benefit to beneficiaries of insured workers who die after retirement equal to the accumulated value of the worker's own contributions at time of retirement, less the aggregate amount paid to the worker as a pension.

5. *Administration*.—While the collection of the funds and the control of the administration will be national, local agencies will be used so far as possible in the operation of the system. The guarantees recommended would be impossible in any but a straight national system, since they must be based on the actuarial experience of the population as a whole. It is contemplated that the old-age insurance reserve funds will be invested and managed by the treasury (or the Federal Reserve Board) on the same basis as the unemployment insurance funds. All other aspects of administration are to be vested in a Federal insurance authority. It is recognized that the administration of an insurance plan for such a number of persons is a large undertaking, and to prevent duplication and to reduce administrative costs, it is recommended that the same State and local agencies handling unemployment insurance be utilized for this purpose. Other State and local labor agencies will also have to cooperate in the administration.

VOLUNTARY OLD-AGE INSURANCE

In addition to the compulsory old-age insurance plan, it is proposed that there be established, as a related but separate undertaking a voluntary system of Government old-age annuities, for restricted groups as indicated below. Under such a plan, the Government would sell to individuals, on a cost basis, deferred life annuities similar to those issued by commercial insurance companies; that is, in consideration of premiums paid at specified ages, the Government would guarantee the individual concerned a definite amount of income starting at, say, 65 and continuing throughout the lifetime of the annuitant.

The primary purpose of a plan of this character would be to offer persons not included within the compulsory insurance arrangement a systematic and safe method of providing for their old age. The plan could also be used, however, by insured persons as a means of supplementing the limited old-age income provided under the compulsory plan.

Without attempting to outline in detail the terms under which Government annuities should be sold, it is believed that a satisfactory and workable plan, based on the following principles, could be developed without great difficulty:

(1) The plan should be self-supporting, and premiums and benefits should be kept in actuarial balance by any necessary revision of the rates indicated by periodical examinations of the experience.

(2) The terms of the plan should be kept as simple as practicable in interest of the economic administration and to minimize misunderstanding on the part of individuals utilizing these arrangements. This could be accomplished by limiting the types of annuity offered to two or three of the most important standard forms.

(3) In recognition of the fact that the plan would be intended primarily for the same economic groups as those covered by compulsory annuities, the maximum annuity payable to any individual under these arrangements should be limited to $100 per month. The plan should be extended to persons of the lowest-wage groups who are able to build up only small annuities, by providing for the acceptance of relatively small premiums (as little as $1 per month).

(4) The plan should be managed by the insurance authority, along with the compulsory old-age-insurance system.

No estimates have been made as to the amount of annuity reserves that would be accumulated under a plan such as that proposed above. It is believed, however, that the fiscal problems presented by such reserves would not be serious.

Judging by experience abroad, relatively few persons will voluntarily take out such annuities unless the Government actively interests itself in promoting them.

Part III. Security for Children

In the last analysis, security for family life, insurance of an environment in which the rights of children are safeguarded, is the principal objective in an economic-security program. All the measures which the Council have considered—unemployment compensation, an employment and public assistance program, adequate health measures, and even old-age pensions, which lift the burden of the support of the aged from those of middle age whose resources are needed for the care and education of their children—could be described as child-welfare measures. But in addition to these general measures, certain special measures are necessary for the protection of children. Two groups of such measures, to be administered by the Children's Bureau of the United States Department of Labor, were submitted to the Council, with the endorsement of the Special Advisory Committee on Child Welfare, and in the case of the recommendations as to child and maternal health, of the Special Advisory Committee on Public Health, as well as the Child Welfare Committee. These measures which were considered and approved by the Council are, briefly, as follows:

1. Strengthening and expanding of mothers' pensions and of State and local services for the protection and care of homeless and neglected children and children whose surroundings are such as gravely to impair their physical and social development, through a program supported jointly by Federal grants-in-aid and State and local appropriations.

Mothers' pensions, designed to bring security in their own homes and under their mothers' care to children who are deprived of a father's support by death, incapacity, etc., and for whom long-time care must be provided, are now authorized by legislation enacted in 45 States. Such pensions are, however, actually granted by less than half the local units empowered to provide this form of care, and in many of these the amounts of the grant are inadequate to safeguard the health and welfare of the children.

Of the present annual expenditures of approximately $37,200,000, local appropriations total $31,200,000, and State appropriations amount to $6,000,000. In order to take care of those now on waiting lists, poor relief, or emergency unemployment relief, and those for whom existing grants are inadequate, State appropriations should be increased; and it is estimated that approximately $25,000,000 a year for Federal grants-in-aid of this program will be required for the first 2 years, rising to a possible $50,000,000 as the program develops. In this connection it is noted that the Federal Government, through the Federal Emergency Relief Administration, is now spending much more than $25,000,000 on families probably eligible for mothers' aid. Federal grants should be conditioned on the State laws being made mandatory on the local units and on approved plans which would insure minimum standards in investigation, amounts of grants, etc., and after June 30, 1937, State financial participation, which might take the form of equalization grants to local units or per capita grants as the individual States desired. An appropriation of $1,500,000 a year is approved for assistance to State welfare departments in promoting more adequate care and protection of children and strengthening local public child-welfare agencies.

2. A child and maternal health program involving Federal assistance to the States, and through the States to local communities, in the extension of maternal and child health service, especially in rural areas, was approved. Such a program, it is understood by the Council, would include (*a*) education of parents and professional groups in maternal and child care and supervision of the health of expectant mothers, infants, preschool and school children, and children leaving school for work; (*b*) provision for a rural maternal nursing service; (*c*) demonstrations of methods by which rural mothers may be given adequate maternal care; and (*d*) provision for transportation, hospitalization, and convalescent care of crippled children, in areas of less than 100,000 population. This program should be developed in the States under the leadership of the State departments of health or public welfare, in close cooperation with medical and public welfare agencies and groups, and other agencies, public and private, concerned with these problems. The committee submitting this plan estimated that approximately $7,000,000 a year will be required for this program, to be increased as the program develops.

Part IV. Employment and Relief

The report of the Special Committee of Employment and Relief Advisory to the President's Committee on Economic Security was referred to the Council for consideration and after discussion by a subcommittee and the full Council, the report was adopted in principle.

The main recommendations of the report which are herewith restated and reaffirmed are:

I. GOVERNMENT EMPLOYMENT PROGRAM

1. All of those on relief who can be employed should be given work. To accomplish this end a governmental employment program is necessary.

2. Great care must be taken to avoid any governmental work program which will nullify its own gains by retarding recovery.

3. Programs can be devised which will provide real work for large numbers of the unemployed. In selecting projects the following things should be kept in mind:

(*a*) The program should be varied so that workers of many different skills may be employed; it should be widely distributed geographically; it should be free as possible from requirements which cause delays and hinder ready adaptation to the needs of the unemployed, suh as insistence upon self-liquidation or work by contract.

(*b*) The present program of Public Works and work relief projects should be studied and extended as far as possible. Special attention should be given to the processing of surplus products and production for use.

(*c*) Continuous study should be given to the adopted or suggested programs of other departments of the Federal, State, and local governments. For example, the Committee on Medical Care is recommending the construction of 500 rural hospitals and other sanitoria. Work programs relating to the housing needs of communities can be greatly developed, and the rehousing of dependent families in slum areas to be torn down is a matter which should be studied.

4. Unless work is separated from relief it loses most of its social values to the worker. Therefore the Government employment program should be divorced completely from relief, and should be set up separately from the public-assistance program recommended in this report.

5. Candidates for employment should be selected on the basis of their ability, not their need, but as there probably will not be sufficient Government work to give employment to everyone not now employed, applicants should be required to show that they are dependent on their own earnings and that they have had previous regular-work experience.

6. The proper selection of these applicants, and their reabsorption into private industry cannot be properly done unless the work of the United States Employment Office and the State employment offices is expanded and strengthened and the personnel in many States improved.

7. There must be close and constant cooperation between all employment offices and the responsible authorities in governmental public assistance departments.

II. EDUCATIONAL PROGRAM FOR YOUTH

The committee believes that the security program should contain special educational provisions for those between the ages of 16 and 21. By utilizing the educational facilities which the Nation provides, and strengthening them where necessary, education could replace work as the element necessary for security for that age group. In this way a million or more competitors would be withdrawn from the labor market.

III. PUBLIC ASSISTANCE PROGRAM

It is very important to retain the gains which have been made in the administration of public assistance in the last few years. The standards of service are higher and relief more nearly reaches adequacy mainly because there has been Federal financial aid to the States and supervision of their work. There has also been State aid and supervision of the counties and townships. These gains cannot be made permanent without the revision of all the so-called "poor laws" in most of the States. It is rarely that such an opportunity comes to change a whole group of antiquated and sometimes inhuman laws. To do that and to retain the good in the present emergency set-up, a plan is advocated for a Federal department or administration through whch equalization funds would be administered to the States. This would be a powerful influence in building up State and local

agencies which would be able in turn to do away with the evils of the present relief system. Strong State and local departments of public welfare, well organized on a permanent rather than an emergency basis, should be encouraged as a means of providing assistance according to the varying needs of families and individuals. The best known methods are necessary to counteract the demoralization and insecurity which result from the social hazards encountered. Such assistance should be adequate, timely, certain, and well administered and the State and local administrations developed on a permanent basis should be encouraged to give most careful attention to the selection and training of qualified personnel. It is therefore recommended:

1. That there should be a permanent public welfare bureau, department, or administration in the Federal Government which should administer all Federal public assistance funds and coordinate Federal, State, and local public assistance efforts; and in which should be focused the development of whatever relationship should exist as between public assistance and other measures of economic secuity.

2. That we recommend that the proposed Federal bureau or department of public welfare be given authority to require a State to consolidate its welfare functions in one satisfactory permanent department with appropriate local units as a condition to the use of State and local machinery in the administration and distribution of Federal funds.

3. That the committee asks support for a unified welfare program, Federal, State, and local. This should be a well-rounded program, unified administratively as well as financially. The committee believes that Federal grants-in-aid are urgently needed not only for unemployment compensation but also for old-age pensions, mothers aid, general home assistance, care of homeless children and adults, and other parts of the proposed unified welfare program. The committee also expresses its belief that no hard and fast line can be drawn between any of these categories.

It will not be possible for the State and local governments to assume full responsibility for those families whose needs would not be met by a work program but the Federal Government should, through its proposed welfare administration secure all possible cooperation from these subdivisions of government.

Part V. Risks to Economic Security Arising Out of Ill Health

The Advisory Council wishes to give general endorsement to the proposals of the staff and its advisory medical, public health, hospital, and dental committees relative to public health and medical care. Specifically the Council approves the proposal for annual Federal appropriations of not less than $10,000,000 to the United States Bureau of Public Health for the following purposes:

"To the Public Health Service: (1) For grants-in-aid to counties and local areas unable to finance adequate public-health programs with local and State resources, to be allocated through State departments of health; (2) for direct aid to States in the development of State health services and the training of personnel for State and local health work; (3) for additional personnel within the Service for investigation of disease and of sanitary or administrative problems which are of interstate or national interest and for detailing personnel to other Federal bureaus and offices and to State and localities; and"

The Council emphasizes the necessity for including in the economic security program adequate measures for preventing the risks to economic security arising out of ill health, and believes that these foregoing proposals will contribute to the development of a national health plan.

The Council also approves the three sets of proposals relative to medical care, as follows:

1. Further use of P. W. A. funds for the construction of public-health and medical institutions such as tuberculosis sanatoria, mental-disease hospitals, and health centers, where the need is shown to exist and funds are available for maintenance.

2. Use of P. W. A. funds for the construction of general hospitals in rural areas where such institutions are needed but where no hospitals exist, with appropriations on a decreasing scale for their operation. A preliminary survey shows that there are approximately 500 such areas.

3. Extension of hospital care to persons on F. E. R. A. relief.

The Council wishes to express its appreciation of the assistance being rendered to the staff by the medical, hospital, and dental advisory committees in their study of health insurance and of other measures for medical care which is still under way.

The CHAIRMAN. At this point the Chair submits for the record a statement by Dr. Witte, Executive Director of the Committee on Economic Security, prepared recently, entitled, "Why the Townsend Old-Age Revolving Pension Plan Is Impossible."

(The statement referred to follows:)

WHY THE TOWNSEND OLD-AGE REVOLVING PENSION PLAN IS IMPOSSIBLE

By Edwin E. Witte, Executive Director of the Committee on Economic Security, January 1935

COSTS

The Townsend plan proposes that pensions of $200 per month shall be granted to all citizens of the United States who are 60 years of age or over, other than habitual criminals, and who will forego all gainful occupation and agree to spend the pensions during the month in which they are received. No income or property limitations whatsoever are prescribed; even millionaires would be entitled to the Townsend pensions.

There were 10,385,000 persons over 60 years of age in the United States in 1930, as shown by the census of that year. At this time the number is considerably greater, being estimated at 11,582,000. The number of habitual criminals among the aged is very small and the number who are not citizens only about 600,000. While 4,155,495 persons over 60 years of age were in 1930 still "gainfully occupied", the great majority of these persons would gladly forego gainful occupation and agree to spend their pensions each month as received, if they were assured a pension of $200 per month. Even if one-fourth of all now gainfully occupied would refuse the pensions, the total number of the pensioners under the Townsend plan would still approximate 10,000,000. This is the figure for number of pensions most commonly given in the Townsend literature, although sometimes 8,000,000 is stated as the number to be pensioned.

If there are 10,000,000 pensioners, the cost is $2,000,000,000 per month or $24,000,000,000 per year; if there will be only 8,000,000 pensioners, these figures would be reduced to $1,600,000,000 per month or $19,200,000,000 per year. Either figure is considerably more than double the present combined Federal, State, and local taxes, which in 1932 totaled only $8,212,000,000 (Source: Annual Report of the Secretary fo the Treasury, 1933, p. 306, and the report of the United States Census Bureau, Financial Statistics of State and Local Governments: 1932, p. 9).

These figures would represent the costs only in the first year. Persons who reach age 60 still have more than 15 years of life ahead of them on the average Under the Townsend plan the average pensioner would be entitled to $200 per month for more than 15 years. Actuaries employed by the Committee on Economic Security have computed that merely to pay pensions to those now 60 or over represents a cost to the Government of a present value of 245 billion dollars—which is to be compared with a total estimated public and private debt of 126 billion dollars at the peak of the boom period in 1929. (Source: The Internal Debts of the United States, by Evans Clark, p. 10.) This total almost equals the entire estimated taxable wealth of the United States, which the report on double taxation in 1932 of a subcommittee of the Committee on Ways and Means of the House of Representatives in the Seventy-second Congress, second session (p. 294), places at less than 260 billion dollars, and is 50 percent greater than the actual assessed value of all property, found by this subcommittee to be 163 billion dollars.

As the plan contemplates that not only shall pensions of $200 per month be paid to those now 60 and over but also to all persons as they become 60, the actual liability assumed by the Government is much greater than this staggering total of 245 billion dollars. For many years to come the number of pensioners will increase each year, and the annual cost and total liability will mount rapidly.

TAXES

To finance the Townsend pensions the McGroarty bill (H. R. 3977), which is the official Townsend plan bill, provides that a 2-percent tax (which may be reduced by the President to 1 percent or increased to 3 percent) shall be levied "on the gross value of each business, commercial, and/or financial transaction", to be paid by the seller.

In the Townsend literature the claim is made that the total money value of all transactions in 1933 was 1,200 billion dollars and the Fifty-fifth Statistical Abstract of the United States is cited as authority for this statement. The page where this information appears, however, has never been given and a careful examination of the Fifty-fifth Statistical Abstract of the United indicates that no figure for the total money value of all transactions appears anywhere in the volume. The nearest approach to such a figure is the total of all bank debits (representing the total of all business transactions in which bank checks, drafts, etc., are used) in the 141 principal cities of the country, which in 1933 was $304,769,000,000 (Source: Statistical Abstract of the United States, 1933, p. 254). It is estimated by Mr. Horbett, of the Federal Reserve Board, that the debits of all banks outside of the 141 principal cities are one-thrid of those in these cities. On this assumption, the total of all bank debits in 1933 was 442 billion dollars, while, roughly representing the total of all "business, commercial, and/or financial transactions" not all of this amount will be taxable under the Townsend plan, as it specifically exempts "salaries for personal services." Allowing for this exemption, approximately 400 billion dollars of transactions would have been taxable in 1933. At the 2-percent rate in the McGroarty bill, this tax would have yielded 8 billion dollars, or about one-third the amount needed for the Townsend pension. A rate not of 2 percent or 3 percent, as provided in the McGroarty bill, but of 6 percent is indicated as necessary for payment of the Townsend pensions on the basis of 1933 money value of all transactions.

Even a 2-percent rate on the money value of all business, commercial, and financial transactions (to say nothing of a 6-percent rate) is so heavy that it would stop all business and could not possibly be collected. It would mean a tax of 2 percent of the face value of every check written in the course of ordinary business transactions. It would apply to manufacturer's sales, wholesalers' sales, and retail sales, and for nearly all commodities would represent a duplication of taxes, which, inevitably, would have to be added to the price paid by the consumers. In glassware for instance, 11 transactions are customary between the producer of the raw materials and the consumer. On all of these transactions there would be a 2 percent (or 3 percent) tax and at each stage something more than the tax (to allow for investment and handling charges) would be added to the price.

Such increases in prices would have a pronounced tendency to restrict purchases. Many other types of transactions would be rendered entirely impossible, while in the Townsend literature the claim is repeated time and again that a very large part of the entire cost of pensions would come from the sale of stocks and bonds, the probable effect of a tax of 2 percent (or 3 percent) on the money value of all sales of securities would be to close all stock exchanges, since the margin at which business is done on these exchanges is much less than 2 percent. A tax of 2 percent on the money value of all transactions would dry up the sources of revenue and would probably produce much less than the $8,000,000,000 per year indicated as the probable yield on the basis of the 1933 business of the country. In fact, it is doubtful whether such a heavy tax could be collected at all.

ADMINISTRATIVE PROBLEMS

Aside from the difficulties of collecting three times the amount of the Federal, State, and local taxes combined (which, as noted, would require a tax rate not of 2 percent but of 6 percent on the money value of all business, commercial, and financial transactions), the Townsend plan involves other great administrative difficulties. It provides that all sellers shall be licensed by the Secretary of the Treasury. The Bureau of the Census in 1933 had a record of 2,359,497 establishments engaged in manufacturing, wholesale and retail trade, hotels, service industries, and places of amusement, and this is by no means the entire number of sellers who would have to be licensed and from whom taxes would have to be collected monthly. Provisions would also have to be made for up-to-the-minute lists of pensioners and their identification, to prevent frauds. Under the McGroarty bill, further local pension boards would have to be set up in each of the 3,071 counties, and, approximately, 3,500 wards in cities of the country.

Most difficult of all would be the necessary checking to see that the 10,000,000 pensioners all spent their $200 within the month in which received. This would require going into the private affairs of the pensioners to an extent never before attempted and would necessitate a vast army of additional Government employees.

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FINAL APPRAISAL OF PLAN

The Townsend advocates base practically their entire argument on the "revolving" feature of their plan. If there does not result from the plan a very great increase in incomes and in the money value of transactions, the promised pensions cannot possibly be paid for any length of time without wholesale inflation. The total income of all of the people of the United States in 1933 was only 46 billion dollars. The people who are over 60 years of age are less than 9 percent of the entire population of the country. The Townsend proposal, consequently, might be described as a plan under which more than half the national income is to be given to the less than 9 percent of the people who are over 60 years of age. Unless there is a very great increase in the national income, this could be done only through reducing the incomes of the people under 60 years of age by approximately one-half.

The Townsend advocates claim that such a result will not be produced because business will be enormously stimulated through placing such a large amount of money in the hands of the old people to spend within the month in which received. They say nothing about the fact that the people under 60 will have approximately the same amount less to spend, as they will have to pay in taxes the amount which the people over 60 will get in pensions.

The Townsend literature states that the United States Government would have to pay only the 2 billion dollars required for the first month's pensions and that the plan would thereafter be self-sustaining because it would create enough new business to return to the Government the entire pension costs, without burdening the taxpayers. As the rate of tax proposed is only 2 percent, it is manifest that the 2 billion dollars paid out in the first month would have to increase to 100 billion during that month, to justify the expectations of the Townsend advocates. The Townsend plan contemplates that pensioners shall spend their money within the month in which received—that is, that all of the pension money shall be turned over once during the month—but in order to produce sufficient revenue to pay the pensions of the second month, without burdening the people under 60, there must be 50 turnovers of the pension within the first month.

Even the Townsend advocates acknowledge that this is impossible, but they are reduced to the dilemma either of burdening the people under 60 with heavy taxes which will greatly reduce their incomes or of having the Government pay the pension costs for a much longer period than the first month. Since it is inconceivable that the people under 60 would submit to have their incomes reduced by one-half, the latter course is the only possibility. This will mean a rapid increase in the national debt and in effect pronounced inflation.

Through inflation it may be possible to keep up the pension payments for some time. The final result, however, cannot be in doubt. The inflation and duplicate taxation involved in the Townsend plan will cause prices to soar and soon, even with $200 per month, the pensioners will not be better off than they were before, while those below 60 will be immeasurably worse off. The Townsend plan is one which involves not only revolving pensions but revolving taxes. It is a plan which arouses great hopes but actually will give the old people little or nothing.

The CHAIRMAN. We will adjourn until 10 o'clock tomorrow morning. Secretary Morgenthau is to be the first witness.

(Whereupon, at 6:05 p. m., an adjournment was taken until tomorrow, Feb. 5, 1935, at 10 a. m.)

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